This 9.2% Dividend Stock Is Your Best Bet Today

Description

You've likely never heard of **Medical Facilities Corp** (TSX:DR). With a market cap of just $400 million, few investors are aware of the company.

You can use this lack of awareness to your advantage.

Over the last 30 days, shares of Medical Facilities Corp have fallen by 20%, pushing the dividend yield up to an impressive 9.2%.

With a healthy balance sheet and long runway for growth, the stock looks like a steal. But there's more to this story.

Let's find out how Medical Facilities Corp stock got so cheap, and why now is your best chance to buy shares.

Lumpiness is a virtue

If you bought Medical Facilities Corp stock in 2011, you would have accumulated roughly 0% in capital gains. Your total return, however, would have been much higher, as the company has been paying out a high and steady dividend every month.

While it's grown a bit since 2011, the monthly dividend has averaged roughly $0.09 per share. Factoring this return into the stagnant share price, your real return would be more than 9% annually, outpacing the Canadian stock market as a whole.

The stock price, meanwhile, has not been so stable. Since 2011, shares have ranged between $9 and $23 apiece. This volatility is largely driven by lumpy earnings.

For example, in 2015, profits totaled $63 million. The following year, earnings tumbled to $13 million. In 2017 and 2018, profits rebounded to $27 million and $28 million, respectively.

This lumpiness has led to huge swings in the stock price, although the underlying business is fairly stable.

Where does the financial lumpiness come from?

Medical Facilities Corp owns surgical hospitals and ambulatory surgery centers throughout the U.S. This is a stable and growing business. Both revenue and gross profit have increased in each of the past five years.

However, natural shifts in payor mix can lead to changes in reimbursement. Acquisitions, which often lead to long-term value generation, can also be a drag in any one year.

“A higher proportion of government payors and shifts in case type were the main causes of the decline, along with increased operating expenses due to acquisition activity,” explained the company’s CEO back in 2016.

This is your opportunity

On a macro scale, Medical Facilities Corp has continued business as usual for nearly a decade, even if its financial statements sometimes indicate otherwise. Revenues are growing, operating profits are stable, and net losses are rare.

The current 9.2% dividend looks dangerously high upon first glance, but a steep selloff is to blame rather than a deterioration in fundamentals.

Last quarter, the market dumped the stock after a big earnings miss. This has happened before, but the company has always recovered.

For its part, management remains committed to its tried-and-true vision.

“Our business is subject to variations in case volumes, as well as changes in payor and case mix. This past quarter, the changes in our payor and case mix resulted in lower revenue growth and impacted our operating results,” said CEO Robert Horrar last month.

“That being said, our strategy has not changed. We remain focused on capitalizing on opportunities to diversify our assets through strategic acquisitions and development of physician-aligned ambulatory surgical centers and surgical hospitals, as well as driving same facility growth.”

Expect the dividend to be maintained and the market to re-rate the stock quickly once the next few quarters roll in.

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