Passive-Income Investors: Buy the Dip in This Dividend Stock for “Bonus Yield”

Description

As someone who’s on the hunt for passive income, it’s important to remember that you’re still a value investor. Because like it or not, “all investing is value investing,” as Warren Buffet once put it in response to his purchase of a growth stock that seemingly lacked valuation metrics that were indicative of a run-of-the-mill “value investment.”

With that in mind, you need to weigh the value you’re getting as you look to lock in those big yields. One thing I love about value-conscious dividend investing is that with battered names that are trading at discounts to their intrinsic value, you’re usually getting a bit more yield than you normally would when a stock isn’t as bruised.

As you may know, the dividend yield of a stock goes up as shares decline in price, not because of dividend raises, but because the dividend payout (the numerator) remains static while the price (the denominator) goes down. As a result, you may get X% in extra yield versus that of the stock’s historical average yield, and it’s this “extra yield” (I like to refer to as it “bonus yield”) which one can only lock in when a stock has taken a bit of a hit.

Consider **NFI Group** (TSX:NFI) (formerly known as New Flyer Industries), an under-the-radar bus manufacturer that owns and operates production, distribution, and service centres across North America. The stock suffered a horrendous fall from glory last year, with shares declining around 50% from peak to trough.

Yes, it was a nasty spill, but North America’s bus heavyweight isn’t about to fold any time soon. Since mid-May, the stock has recovered a bit of ground, but as of the time of writing, there’s still a tonne of room until the stock sees its highs again. Fellow Fool David Jagielski recently commented on the potential long-term catalyst, the rise of electric vehicles, that could propel the stock higher with time.

When you think of buses, the last thing you think of is cutting-edge tech. You probably don't think much of the buses you ride on your day-to-day commute, let alone consider buses as a potential investment opportunity. Despite the seemingly dull nature of creating the buses on the roads, NFI Group is poised to ride a pretty strong secular tailwind, as the incentive for electric buses continues to swell.

"The bus manufacturer has been developing electric-powered buses that have been gaining popularity around the world. As countries start adopting greener initiatives and taking orders for these vehicles, it'll give NFI's sales a big boost," said Jagielski, noting that the catalyst would take time to work its way into the stock and the potential for "boosted capabilities" in the event the name is taken over.

I think NFI's green thinking will be a boon for the stock over the next decade and beyond as the world gravitates towards sustainably powered transit options.

At the time of writing, NFI sports a fat 4.6% dividend yield, over a full percentage point higher than that of NFI's five-year historical average yield of 3%. The stock trades at 0.7 times sales and 11.3 times next year's expected earnings with a 8.55 EV/EBITDA. That's cheap. Lock in the big yield and hang on for the ride would be my suggestion to value-conscious income investors.

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joefrenette