This Quality Dividend Stock Is Crazy Cheap Today

Description

Sometimes certain stocks go under the radar. There are many reasons for this, but often the reasons are harmless. With investors and analysts not paying attention, these stocks trade at unreasonably cheap valuations. So, if you are one of those investors, like me, who is interested in finding a top-quality, little-known stock that is quietly and discreetly making its shareholders big money, keep reading.

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Up 75% in the last five years, a little top-quality Canadian company called **Calian Group** (TSX:CGY) is offering consulting and professional services in the areas of health, IT, training, and engineering. It might be just what you're looking for.

Founded in 1982, with over 3,000 employees now, this $268 million small-cap gem has been growing more aggressively in recent years through acquisitions as well as organically.

Let's take a look at the reasons I think Calian Group is worth brushing up on and adding to your shopping list.

The business is healthy and growing

Calian operates in two business segments: the Systems Engineering Division (SED) and the Business and Technology Services Division (BTS), with the BTS division representing the bulk of revenue and profit (over 70%).

This is not a very rapidly growing business, but it is a steadily growing one, with a 7.5% five-year compound annual growth rate in revenue. It is also a business that does not require big capital expenditures to maintain, and as such, cash flows are quite healthy. In 2018, operating cash flow before changes in working capital was $26 million, and free cash flow was $19 million, or 6.25% of revenue.

It is also a business that has benefitted from diversification across clients, industries, and geographies, and with this being management's goal, we can expect it to continue. In the SED division, Calian's primary market is the satellite communications sector, and the company works with manufacturers, operators, and service providers around the world with clients in the government and commercial world, including defence and agriculture.

In the BTS division, Calian offers services for both the public and private sectors. Services such as training, IT, healthcare, and engineering professional services and solutions. The path to more growth lies in the fact that organizations are emphasizing lowering costs and better efficiencies, and so the drive to outsource certain functions is accelerating. This is where Calian comes in, and we are seeing the demand in its results.

Calian currently enjoys a backlog of more than $1 billion, which is a significant achievement.

Cheap valuation with strong fundamentals

Calian has been under the radar partly due to the fact that it is not an “exciting” stock with massive growth rates, and it is not a particularly exciting business. So, it has not garnered the attention of investors or analysts.

But upon looking deeper into the company’s financial statements and valuation metrics, I am left feeling pretty excited about the company and the stock. Calian pays out a pretty generous dividend, with a dividend yield of 3.26%, and a payout ratio of only 56%. This places the stock in the attractive dividend stock category. Also, Calian’s balance sheet is top notch, and with a debt-to-total-capitalization ratio of only 14 times, the company is well positioned to continue its growth plan, which includes acquisitions.

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Calian stock trades at a price-to-earnings multiple of 16 times this year’s estimated earnings and 14 times next year’s estimate. Expectations built into the stock’s valuation are quite low. And if you’re like me, you like it like that.

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1. Dividend Stocks
2. Investing

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1. TSX:CGY (Calian Group Ltd.)

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