TFSA Value Hunters: This Dirt-Cheap Cash Cow Has Generous Dividend Hikes Up Its Sleeve

Description

TFI International (TSX:TFII) is a mid-cap transportation and logistics kingpin that too many investors have been passing up on of late. If the railways serve as the heart of the economy, then the truckers undoubtedly serve as the blood vessels, the veins, arteries, and capillaries in bringing goods to remote parts of the country.

The rails and the truckers work in tandem, which is a huge reason why **CN Rail** scooped up TransX to bolster its transportation capacity. Although truckers such as TFI are sensitive to the state of the North American economy (TFI serves both Canada and the U.S.), investors shouldn't fear another catastrophic implosion like the +80% decline suffered during the last recession.

Sure, many economic indicators point to a looming recession, but when it comes to TFI and its already severely depressed valuation, it appears as though a chunk of the recessionary fears are already baked in. Moreover, TFI has made meaningful efforts to improve the efficiency of its underlying operations since the last downturn.

Looking at the longer-term chart, you'll notice that it's been a reasonably choppy ride, but the trajectory has ultimately remained positive through the economic slowdowns, operational hiccups, and all the sort. As management continues to improve its efficiency through cost improvements and the bolstering of operations, I see a scenario in which TFI could be an unstoppable cash cow should the economy not fall into a recession.

With TFI's ample free cash flow comes greater potential to reward investors through generous and frequent dividend hikes. Over the last five years, the firm has averaged 7.4% in annualized free cash flow growth alongside uptrending operating margins. I'm a huge fan of TFI's trajectory as a dividend grower and the current valuation. The stock trades at an absurdly cheap 7.3 times EV/EBITDA, 10.2 times next year's expected earnings, and 0.7 times sales.

The dividend, which is currently yielding 2.4%, may not seem like much, but it's mighty when you consider the firm's ability to support further hikes over time. Add the dirt-cheap valuation into the equation, and you've got a stock that's a must for any value-conscious investor's TFSA.

A simple cash cow of a business at an obscenely cheap valuation. Although the road has been rocky, I do think the rockier road will ultimately lead to greater rewards.

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