



## TSX Index Bargain Bin: Buy This Dividend Heavyweight After its 10% Single-Day Plunge

### Description

**NFI Group** ([TSX:NFI](#)) was on the TSX index's biggest loser list on Tuesday after shares ended the day over 10% lower on a disappointing second-quarter update, guidance cut, and earnings caution.

The company is slated to reveal its second-quarter results in a month (August 13), and given the highly unfavourable reaction on the delivery update, it looks like management is looking to reduce its pain by ripping off part of the band-aid sooner rather than later.

Given NFI Group is a relatively low-volume stock, I'd say it's a good move considering the results would have taken some time to digest, and the [overreaction to the downside](#) would have been severely exaggerated. Now investors know that Q2 earnings will be a stinker; I think there's a chance that the stock could stand to rally when the company officially reveals its weak Q2 earnings numbers like **Apple** did earlier this year.

Management slashed its full-year guidance, now expecting 3.4% fewer bus deliveries thanks to difficulties in the private market. Management also "cautioned" investors that second-quarter earnings will be weaker than expected thanks to margin pressures, transaction costs relating to a recent acquisition, and lower deliveries.

The 10.3% flop in the stock appeared to be warranted, and given the longer-term trajectory is overwhelmingly negative after the stock fell off a cliff last year, I'd only pick up NFI shares today if you're comfortable with enduring short-term pain in return for potentially outsized long-term gain.

There are a lot of headwinds facing the company right now. And issues going on at the company-specific level (production issues and delays) aren't helping the bus maker. Although management is taking steps to avoid future flops when it introduces new vehicle models into production, I remain skeptical with regards to management's abilities to mitigate such risks.

At the time of writing, the stock sports a bountiful 5.4% dividend yield, and although tremendous volatility is on the horizon, it's tough to pass on the dividend heavyweight given the severely depressed

price of admission. NFI stock trades at near eight times EV/EBITDA and under 0.57 times sales. If that's not cheap, I don't know what is.

Yes, there's baggage. But given how cheap the name is, I'd say it's worth hanging onto the name, as management looks to prep for a ramp-up in deliveries.

## Foolish takeaway on NFI

It appears as though investors are more than willing to dump NFI stock now and ask questions later. You can't blame them though, as operational risk is tough to gauge. Production issues aren't usually a quick fix either, and that probably has most of the short-term investors already out of the stock.

As we inch closer towards the company's Q2 earnings reveal, I'd only urge investors with [long-term investment horizons](#) and strong stomachs to back up the truck. For everybody else, it's probably a better idea to initiate a partial position in NFI today and another position after the Q2 results, which may lead to the continuation of stock's purge.

Stay hungry. Stay Foolish.

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