



This Dividend Stock Might Be About to Take Off!

Description

What a fall from glory [NFI Group \(TSX:NFI\)](#) has had over the past year. The stock has now lost half of its value since March of last year, and although the bus maker has endured its fair share of pressure, the dividend is still standing. Given the state of the balance sheet, I think it'll not only continue standing amid headwinds, it'll be subject to a good amount of growth over time.

A great way to tell the difference between potential bargains and value traps is to look at the financials to determine the fate of the dividend, which typically has a swollen after a massive plunge.

The [dividend yield of 5.5%](#) is close to the highest it's been in recent memory, and although the recent decline in shares may suggest the dividend is in danger of being cut, the 50.3% TTM payout ratio and full coverage by free cash flows as of the latest quarter say otherwise.

Of course, the highly cyclical nature of the production of long-lived assets could cause sudden massive swings in profitability, and if the global economy heads into a recession, the financials may suggest that the dividend is safer than it actually is. But unless you're a "doomsdayer," I wouldn't bet on a dividend cut moving forward, even after management lowered its full-year guidance to account for difficulties in the private market.

The company still pulls in ample cash flows, and as management rights their past-year wrongs, the stock could be poised for a big bounce now that the valuation has hit rock bottom.

I'm not a fan of management's recent fumble, but I don't think they're the next **Bombardier** when it comes to delays and production problems. NFI hit a bump in the road, and unlike Bombardier, it can realistically recover under its own power.

The stock trades at 7.44 times EV/EBITDA, which is close to the best entry point you'll probably ever get with the name. If you've got a long-term time horizon to ride the rebound, I'd lock in the 5.5% dividend yield today and get ready to collect and forget.

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Date

2025/07/19

Date Created

2019/07/29

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