This 5.83% Dividend Stock Is Ultra-Cheap to Buy Right Now

Description

Transcontinental (TSX:TCL.A) is a family controlled, publicly traded billion-dollar company that perhaps a lot of Foolish readers out there may not know a whole lot about.

But it also happens to be company that's paying investors a rock-solid 5.83% annual dividend yield and that appears to be significantly undervalued by traditional metrics. It's a company that dividend and value-oriented investors ought to pay close attention to.

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A major restructuring…

Founded back in 1976, TCL has undergone several strategic overhauls to stay relevant in the Canadian market.

Earlier in the decade, that included the completion of several major divestitures of what were deemed to be non-core assets for proceeds north of $400 million, including selling parts of its U.S. and Mexican operations as well as certain consumer magazine and book publication assets.

More recently, however, it's been able to leverage the balance sheet flexibility that it gained from those moves and used it to invest heavily in flexible packaging — an area where it sees superior opportunity for growth, as it continues to pivot away from a declining market for printing-related products and services.

The Coveris acquisition

The biggest of those moves came with the acquisition of Coveris, which helped TCL jump 15 spots from 22 to seventh on the list of North America's largest flexible packaging converters

Prior to the deal, Coveris had generated revenues of US$966 million, operating earnings of US$66 million, and adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of US$128 million.

So, at a US$1.32 billion price tag, while TCL didn't exactly overpay for Coveris, I could certainly make the argument that it did have to pay full value for the acquisition and, in doing so, considerably raised its financial profile in the process, increasing its net indebtedness ratio from just 0.3 times prior to the deal to 2.7 times after the deal had been completed.

And while it's stated on the record its plans to get that figure below two times by the end of next year, the fact of the matter is that the acquisition has unquestionably shaken up the financial landscape as far as the company's shareholders are concerned, as a large chunk of its cash flows over the next couple of years will need to be prioritized towards paying down those financial maturities.

Seeing the bigger picture…

It's perhaps not all that surprising that the market has reacted swiftly to the latest sea-change but perhaps not exactly in the way in which the company's managers hoped for.

TCL stock has sold off heavily since late 2018, when it briefly touched above the $30 mark to where it trades now at closer to $15 per share.

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This only makes sense, as this is a company that has historically prioritized returning cash to its shareholders through sustained dividend increases, and, going forward, that just doesn't appear it will be the case any longer, at least in the short term.

Between 2018 and 1993, Transcontinental had averaged a compounded annual rate of growth in its dividend of 11% annually.

Yet for fiscal 2019, that figure is expected to drop to something closer to 4.8%.

Foolish bottom line

The Coveris move makes a lot of sense provided management can convince its former customers to follow them over to TCL.

While that may sit as a bit of a question mark for the time being, but in light of the newly combined entity's underlying earnings and cash flows, its 5.83% payout is certainly looking extremely attractive for the moment, particularly in light of the current market environment, and that's something that dividend-minded investors ought to be falling all over themselves for.

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Date
2025/07/23
Date Created
2019/07/31
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