



Is This Dividend Stock an August Buy?

Description

For years, I have been looking at **Intertape Polymer Group** ([TSX:ITP](#)) as a potential addition to my dividend portfolio. I have considered buying this stock since it was around \$11 a share a few years ago and have watched as the share price marched higher. It has been fairly stagnant recently, bouncing between \$16 and \$20 a share for some time. What has kept me away is the fear that this stock is dead money, but is it finally ready to rocket higher?

I've been drawn to the name primarily because of its titular product: tape. The company produces adhesive tape for a variety of industries including the packaging and construction industries. In addition to adhesives, ITP also produces packing materials, lumber wrap, and membrane liners for the mining and fossil fuel industries.

Its last quarter was somewhat mixed, with some great numbers in some areas and some disappointments in others. Quarterly revenue was one major bright spot, with Q1 2019 revenue increasing 17% year over year. Adjusted EBITDA was also positive with an increase of 8.7%.

On the negative side, net earnings were down a rather uncomfortable 27.2%. The worst part about this number is the fact that is in large part due to an increase in finance costs and higher average interest costs on debt. The company purchased Polyair Acquisition and greenfield manufacturing facilities in India, which increased the debt load considerably. Although management argues ITP's growth [should be significant](#) as a result of capital spending and acquisitions, the debt it uses to fund growth is currently the biggest risk facing ITP.

While ITP's debt levels are worrying, there are other positive aspects of this company. One of my favourite attributes is how it continues to return capital to shareholders. It does this in two ways: through dividends and share buybacks.

Currently, ITP is buying back shares at a pretty substantial rate. Earlier this month, ITP announced that it was entitled to buy back 4,000,000 common shares for cancellation. These shares represent up to 7.13% of its outstanding float. Think about that for a moment. As the share count is reduced, each of your shares is now more valuable since you now own a larger percentage of the company and have a

greater share of its profits. Furthermore, ITP's shares have now been reduced to the point they were at in 2011. This proves that this company is committed to preserving or even increasing shareholder value over time.

In addition to buybacks providing shareholders with value, the company also pays [a good dividend](#). Currently sitting at around 4%, the dividend provides decent income when compared to fixed-income alternatives. Unfortunately, the dividend has not been increased in a couple of years. Investors need to trust in the company's belief that investors are better served by putting cash towards share buybacks and servicing its debt rather than providing dividend increases.

ITP is still not quite a buy

Even though I like the company's products, its buybacks, and its dividend, I have a hard time pulling the trigger on ITP because of its debt. If it starts paying down debt, I might be more tempted to buy. Unfortunately, its debt levels just keep getting bigger. As long as that keeps happening, the share price might continue to stagnate, and the dividend may come under pressure. I'll stay on the sidelines for now, but if it reduces its leverage and starts raising its dividend, I might just be a buyer in the future.

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