This Absurdly Cheap Dividend Stock Could Soar in 2020

Description

By combining deep-value and income investing, one can “lock in” dividend yields that are substantially higher than where it’d typically be. The ultimate goal of value investing is to buy stocks that trade at a significant discount to their intrinsic value, and wait until shares “correct” upwards to a level that’s at or above its estimated fair value.

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Such an approach is almost always about scoring significant capital gains, but you seldom hear about the opportunity to be had for long-term income investors to “lock in” dividend yields that are substantially higher than a stock’s historical average yield.

As a stock falls in price, the yield goes higher, unless insufficient cash flows warrant a dividend reduction. For value-conscious income investors who are willing to do proper due diligence, potential dividend reductions waiting to happen can be mostly avoided. And the larger dividend yield based on one’s principal is for investors to keep, even if shares rebound in price and the dividend yield shrinks back towards mean levels.

At today’s levels, **NFI Group** (TSX:NFI) is a prime example of an out-of-favour dividend stock that’s now sporting a yield that’s close to the highest it’s been in recent memory. For those unfamiliar with the business, it’s an automaker that primarily manufactures transit buses for public transit and motor coaches.

As you’d imagine, such a long-lived, heavy-duty asset producer is highly cyclical and is thus subject to big ups and downs depending on market conditions, not to mention the high degree of operational risk involved with production. While management has done a stellar job of mitigating risks in the past, the most recent downfall is a rare but forgivable flop for value-conscious investors enticed by the safe and still “growthy” dividend.

The bus maker and former dividend darling now has a 5.9% yield, which is substantially higher than that of its five-year historical average yield of 3.4%.

Like with any dividend stock that’s sporting a yield that’s far above its mean, there’s some baggage that investors will need to unpack. In the case of NFI Group, the company ran into operational hiccups and harsher industry-wide conditions that led to lower-than-expected deliveries and new orders for its buses.

Looking ahead, management expects things to pick up going into year-end, but at this juncture, both investors and analysts appear to remain skeptical over NFI's ambitious commentary.

In any case, NFI is committed to reducing the debt raised from its ADL acquisition, and should the delivery pick-up actually happen in the second half of the year, we could see substantial upside in NFI shares, as the stock still appears priced as though a recession is a given at this point.

NFI stock trades at 0.54 times sales and 10.6 times EV/EBITDA, a low price to pay for a severely beaten-up dividend stock that could be ready to turn a corner going before the year concludes.

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