Canadians: A Severely Undervalued Dividend-Growth Stock That's Hiding in Plain Sight

Description

For the young and the patient, dividend-growth investing is the best thing since sliced bread. It combines the best of both worlds — dividend and growth investing. And, like the finest of wines, the dividend becomes far better over time.

It's no longer a mystery as to why mega-cap dividend-growth kings like **CN Rail** (TSX:CNR)(NYSE:CNI) are worthy of a premium multiple. But while one could simply stop at such names for their dividend-growth funds, I think it's worth looking to some of the smaller-cap dividend growers out there, as I see a greater opportunity to also capitalize on potentially mispriced shares.

Everybody knows and loves CN Rail, and rightfully so, but few investors know of or care to invest in **TFI International** (TSX:TFII), a transportation stock (in the business of trucking) that draws many similarities to some of the best-run railways out there.

While truckers like TFI may not have as massive a moat as the rails, they are well positioned to grow in conjunction with the economy. In prior pieces, I noted that if the railways are the backbone or heart of the economy, then truckers like TFI should be seen as the blood vessels that can provide remote locations with fresh, oxygenated blood.

The railways and truckers may be seen as competitors, and while this may be true to some extent, they are actually perfect complements to one another. That's a significant reason why CN Rail confirmed the acquisition of trucking firm TransX earlier this year and why your dividend-growth portfolio should include a trucker if you already own rail stocks, especially at today's depressed valuations.

Rails can't reach remote areas that are miles away from railways, so to get goods from point A to point B, in many instances, trucks need to do the heavy lifting for at least a portion of the journey.

TFI is a trucker that keeps on trucking. And while the fate of the stock is tied to the performance of the economy, it is worth noting that operational inefficiencies going on at the company-specific level have since been dealt with. As such, TFI looks to be a solid contrarian bet for those who see the North American economy bouncing back after a soft start.

The stock is by no means safe in the event of a severe economic downturn, but given the cheap valuation, it appears that TFI stock is already priced with a high recession risk in mind. At the time of writing, TFI stock trades at just 9.9 times next year's expected earnings, 6.9 times EV/EBITDA, and only 0.7 times sales.

That's ridiculously cheap given the generous dividend hikes the company has served up over the last few years. While TFI isn't a Dividend Aristocrat thanks in part to sub-par operations in the past, I am a fan of the firm's dividend-growth trajectory moving forward, and think today's valuation presents a wide margin of safety.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:TFII (TFI International)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/04
Date Created
2019/10/21
Author
joefrenette