The Greatest Dividend Stock You've Never Heard of Just Went on Sale

Description

There's no shame in sticking with Canada's blue-chip dividend stocks for growth and income.

Investors are encouraged to choose large-cap stocks to avoid getting burned by penny stocks that promise instant riches but are lacking in substance. Although you won't double your money with a blue-chip overnight, you'll obtain above-average risk-adjusted returns over time.

If you're willing to take on a bit more risk for more potential reward, it may be worthwhile to look at some of the **TSX** prized mid-cap plays. Such mid-caps tend to be mispriced to a higher degree by Mr. Market relative to a name like **BCE** that every Canadian investor watches like a hawk.

When it comes to Mr. Market's pricing of mid-cap names, he typically overextends either to the upside or downside like a pendulum that struggles to remain in a static position. As such, the odds of locking in excess risk-adjusted returns are considerably higher for the names that fewer investors pay attention to.

When you look to mid-cap dividend stocks that overextend to the downside, you not only get a chance to score substantial upside, but you also get to lock-in a yield that's higher than mean levels.

Of course, you need to put in the homework to ensure you're not left holding the bag in the event of a dividend cut that usually accompanies a significant decline in cash flows for any given period.

Consider a stock like **NFI Group** (TSX:NFI), which currently sports a 6% dividend yield. The stock suffered a rough past two years, with shares now down over 52% from their all-time highs.

Prior to the collapse in NFI stock, the bus maker that's better-known as New Flyer Industries had a reputation for operational excellence. As you'd imagine, the business of manufacturing complicated, long-lived assets leaves little to no room for hiccups.

Unfortunately, NFI's recent stumble is thanks in part to self-inflicted wounds that can't entirely be blamed on the slowing economy.

In light of management's expectations that coach deliveries will rebound in the fourth quarter, a quarter of seasonal strength, the stock could be ripe for a slight upside correction as investors shed their fear of prior operational challenges and a bleaker industry environment that's been plaguing the firm of late.

At the time of writing, NFI trades at 8.9 times next year's expected earnings and 0.54 times sales, a low price to pay for a large dividend that still looks well-supported by cash flows.

If you're in the market for a 6% dividend yield for a low price and don't mind a bit of near-term volatility, NFI may be the stock you're looking for.

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