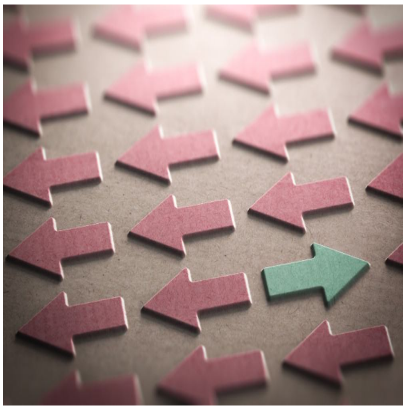

Dividend Investors: Here's a Contrarian Value Stock to Buy Today

Description

Value investing has admittedly been out of favour in the last few years, with growth stocks and growth-related industries garnering most of the attention of investors, often bidding up stock prices to stratospheric levels.

Today, with the clear bursting of a few bubbles, such as the marijuana stock bubble, are we heading for a market environment that will start to favour value investing again? On this note, here's a value stock that has been reeling from its exposure to Western Canada and that has consequently been reduced to depressed valuations, despite pretty strong cash flows.

Wajax cuts costs and increases efficiencies as times remain challenging

The stock I am talking about is **Wajax** (TSX:WJX), a $300 million Canadian distributor of mobile equipment, power systems, and industrial components. Wajax has exposure to a diversified list of sectors and companies, many of which having generally been seeing healthy steady demand and activity. For Wajax, roughly half of its revenue is tied to the construction, industrial, and transportation industries, with a significant portion of its revenue also coming from the natural resource and utility sectors.

The last few years have been transformational for Wajax, and I think it is only a matter of time before the market notices. The company has been busy reducing costs and increasing efficiencies as it faces the difficult realities of its end markets, particularly in Western Canada. It will come as no real surprise, but these realities are reflected in the company's latest results, which showed a 20% reduction in revenue out of Western Canada.

Back to the company's restructuring, which is the good news. Since 2016, the number of facilities at Wajax has been reduced by approximately 20%, and administration costs have been reduced by approximately 10%.

A generous, well-covered dividend and trough valuations provide downside protection

Wajax's dividend yield is 6.67%, and with a payout ratio of approximately 57%, the company and its dividend payments are in good standing. While Wajax's latest results were below expectations, as the company clearly continues to struggle with difficult markets in Western Canada, the stock's valuation more than reflects this bad news. Trading at seven times this year's expected earnings and 6.5 times next year's expected earnings, we can see that these valuations are at trough levels.

Resource markets provide upside

If you believe that the Canadian oil and gas industry will see an uptick in the coming months and years, then you believe that Wajax has significant upside from current levels. Many Canadian oil and gas companies have been buckling under the pressures of insufficient takeaway capacity and horrible sentiment, but if you believe that the government will finally take pipelines projects and LNG investment to the next level, then Wajax will be a clear beneficiary.

From oil sands to general oil and gas operations, Wajax has its foot in on this Canadian sector in crisis. Yet it is diversified, with exposure to other booming sectors as well. Investors can get exposure to this upside while also getting protection from the company's diversity.

Foolish bottom line

Wajax stock is a classic value stock, trading at trough valuations as it goes through difficult times resulting from the macro environment in which it operates. For contrarian value investors, this company's long and strong history, its strong balance sheet, and its rock-bottom valuations will be of interest.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:WJX (Wajax Corporation)

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Date
2025/08/25
Date Created
2019/11/08
Author
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