Stash This Dividend-Growth Stock in Your TFSA Income Fund

Description

Cascades (TSX:CAS) is a dull mid-cap dividend-growth stock that's been picking up traction of late, with shares now up 70% from their April 2019 bottom. The producer of tissue products made from recycled fibres has gone under the radar of many Canadians. The recent resurgence, I believe, could be the beginning of a sustained move much higher over the next year, putting the name on the map.

The company fell onto my radar when management doubled its quarterly dividend from $0.04 per share to $0.08 following record sales for its second-quarter earnings release.

A 2.4% dividend yield isn't that attractive on the surface, but given the operational excellence that's been exhibited of late, I have a feeling that this isn't the last time that Cascades will serve up such a massive dividend hike.

So, what has me so bullish on the paper products maker?

Not only am I enticed by the defensive nature of the products that Cascades sells, but I'm also a massive fan of the valuation, the company's trajectory, and the outstanding fundamentals.

While the demand for certain paper products like tissues may be stable, the stock has been anything but over the years. And that's thanks to fluctuations in input costs (like pulp), which can either act as a headwind or tailwind in any given quarter.

The company's overreliance on exogenous factors is less than desirable for investors who demand stability. Still, anytime you can grab the stock at a massive discount amid an unfavourable input cost environment, you can stand to score outsized returns when headwinds turn back into tailwinds.

And whenever long-lasting improvements are made to the underlying business, like operational improvements and greater efficiencies, you could have a name that could enjoy a significant upside correction. Right now, I think Cascades is in the midst of such an upside correction.

In a prior piece, I'd urged contrarians to buy Cascades on the dip, citing fundamental improvements, a depressed valuation, and the stock's ridiculously low beta (currently at 0.22), which is desirable in such a choppy market.

The stock has been picking up momentum, but shares remain cheap at just 0.27 times sales, 0.84 times book, and 3.3 times cash flow. At 6.85 times EV/EBITDA, Cascades is a dirt-cheap stock that's roaring back. For those looking for a well-covered dividend that could have the potential to grow over the years, Cascades looks like a terrific dividend bet that could make a return to its all-time-high levels.

Could such a maker of toilet paper make you more than sexy assets like Bitcoin?

You'd better believe it!

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