Buy This Cheap Dividend Stock Heading Into 2020 for a Juicy 50% Return

Description

The Dow hits 28,000 for the first time last week, and the TSX almost hit 17,000 in what was also a new record. With markets reaching new heights, it is increasingly hard to find value, especially deep value. This is where smart investors have to look beyond the bell-weather blue chips and be willing to accept a little bit more risk for the potential for outsized returns.

This strategy is especially useful in situations where you have built up a big portfolio of the banks, pipeline companies, and utilities that provide very stable dividends but single-digit capital growth. In situations like that, going up the risk curve with no more than 5-10% of your portfolio can be very rewarding. Think of investors who bought **Shopify** stock a few years ago.

To that end, the stock that I am going to introduce you to is in an industry that has high barriers to entry. I believe the company is a prime candidate for a takeover bid in 2020, which should send the stock price up by 50% or even more.

What does the company do?

Exco Technologies (TSX:XTC) engages in the designing, development, and manufacturing of dies, components, and equipment for the automotive industries. The company is the world's leading provider of storage and other convenient solutions to the automotive markets as well as the largest producer of extrusion tools in North America.

In simple terms, the company provides a lot of the interior plastic and trim parts to big manufacturers that they simply do not want to produce themselves because their focus is the engine and the car exterior and chassis.

Exco Technologies has a wide geographic footprint primarily focused on the U.S. (52% of sales), but extending to other strategic countries like Canada (4%), Mexico (9%), and Europe (30%).

Exco's customers are leading automotive and industrial players globally, and its innovative product portfolio continues to expand across more vehicles.

Solid financial footing

The company recently reported soft Q3 results with nine-month revenues of $120 million, down 21%. This was mostly due to the liquidation of its subsidiary ALC. The liquidation also eliminated the revenue stream that ALC was bringing in, but this revenue was low quality, as it was operating at a loss, so this is a good thing for the company's long-term financial health.

Perhaps more importantly, the company still reported positive free cash flow of $11.2 million in the quarter, which is a big plus. There are very few small companies with a market capitalization under $500 million that are able to generate positive free cash flow.

The company also took advantage of its weak stock price to repurchase 230,100 shares for $1.9 million in the quarter, which is a super shareholder-friendly action.

Exco's pristine balance sheet, as always, remains a pillar of strength. With essentially no net debt and ample liquidity, Exco possesses significant financial flexibility to take advantage of opportunities that may arise while acting as a hedge against any external shocks.

Laser-focused on shareholder satisfaction

Exco has a juicy dividend yield of about 4.5% that is adequately covered by its cash flow. The company also announced that its short-term free cash flow will be directed towards dividends and share repurchases.

This announcement is fantastic news for shareholders because the company recognizes that the best use of its capital right now is not to reinvest in new business activity but to stabilize itself and make sure its shareholders see some return on their investment, given a lot of them are unhappy at the recent stock price performance.

Foolish bottom line

Exco is in a good position to benefit from the growing automobile sales in the future, especially when the U.S.-Mexico-Canada free trade agreement is formally signed, hopefully by the end of 2019.

The financial actions that the company is taking today will ensure that its business is stable, and the company is starting to become extremely attractive to a strategic private equity buyer with a manufacturing focus.

The stock price at the time of writing is hovering around $8, significantly below its 2015 high of $18. Smart investors will keep a close watch on its full-year 2019 results and start nibbling, as the company stabilizes to take advantage of a potential company buyout in 2020 at a 50% premium to current stock price.

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rahimbhayani