TFSA Users: $10,000 in This 11.1% Dividend Stock Pays $1,100/Year

Description

TFSA users are always on the lookout for portfolio diversification. A good investment portfolio consists of growth, income, and value stocks. With recession fears looming large, it would be a good idea to bank on stocks with strong fundamentals and high dividend yields, which will result in a steady stream of income.

We'll look at one such stock, **Chemtrade Logistics Income Fund** (TSX:CHE.UN), which is trading at $10.9 and has a forward dividend yield of 11.1%. This payout suggests that an investment of $10,000 in the stock will result in a yearly dividend income of $1,100.

Chemtrade's focus on operational efficiency

Chemtrade provides industrial chemicals and services. Its business segments include Sulphur Products & Performance Chemicals, Water Solutions & Specialty Chemicals, and Electrochemicals.

The company has managed to increase sales from $1.22 billion in 2016 to $1.59 billion in 2018. Now analysts expect sales to fall to $1.56 billion in 2019 and touch $1.63 billion by 2021.

With decelerating revenue growth, Chemtrade is looking to focus on improving efficiencies. In 2018, the company was impacted by the service levels of rail carriers, the number of rail cars on its fleet, and the visibility of these issues throughout the supply chain.

For some of the products, rail service and lack of timely rail cars impacted Chemtrade's ability to drive profits, as it restricted production rates. Now, the firm has increased its rail car fleet for these products. This will help to offset longer transit times.

Chemtrade is optimizing its supply chain and will also reduce the rail fleet in businesses with reduced volume. The company stated, “Because our rail car fleet is leased, we can shed cars every year, but the benefit of the reduction is not apparent until the following year due to costs incurred to clean and repair the cars at the end of the lease. We reduced rail cars for certain products by over 150 cars in 2018 and have another reduction of over 250 planned for 2019.”

Though most of Chemtrade’s production sites run at peak utilization rates, it wants to improve in key areas. Prolonged maintenance shut down coupled with the rail-service issues impacted production at its chlor-alkali facility in North Vancouver during 2018. However, this was offset by improved production rates of its new poly aluminium chloride and aluminum chlorohydrate production sites.

Chemtrade is also focused on deploying capital effectively. It expects to spend around $90 million in capital expenditures every year, but certain plants will see more than their proportionate share of capital depending on the demand for those products.

Will Chemtrade stock rise higher?

While Chemtrade has an attractive dividend yield, let us look at the stock’s valuation metrics to see if it will move higher. Driven by a 2.2% decline in sales this year, analysts expect Chemtrade earnings to fall by 125% in 2019. However, with a 1.7% increase in sales for 2020, company earnings might rise by 117% next year.

Driven by the falling profit margins, the stock has underperformed the broader market. Chemtrade has failed to beat consensus earnings estimates in three of the last four quarters, resulting in flat returns this year.

However, the stock has made a comeback after strong Q3 results. It has gained over 6% since November 6, 2019, and has a consensus target estimate of $12.06, which is 10% higher than the current trading price.

Chemtrade has a market cap-to-sales ratio of 0.65, and its EV-to-sales ratio stands at 1.56. The price-to-sales ratio is also low at 0.64. Though the stock is trading at a high forward price-to-earnings multiple of 64, it is supported by significant expected earnings growth.

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1. TSX:CHE.UN (Chemtrade Logistics Income Fund)

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