A Top Buy-the-Dip Opportunity Heading Into the New Decade

Description

The Canadian bus maker **NFI Group** (TSX:NFI) is a cyclical play that's fallen on hard times over the past year-and-a-half, with shares now down over 57% at the time of writing thanks to operational hiccups and an unfavourable industry environment.

The stock sports a massive 6.5% dividend yield, which is nearing the highest it's been in the recent memory. Heading into 2020, the stock is also close to the cheapest it's been in a very long time. While there is a high risk of recession heading into the new year, a majority of the downside is already baked into the share price at $26.

To me, NFI looks like one of the best contrarian picks on the **TSX Index**, although it's not without its risks. While management didn't deliver formal guidance for 2020 (that comes next month), they do see revenue, adjusted EBITDA, and ROICs bouncing back thanks in part to the recent acquisition of British bus maker ADL and a pick-up in deliveries.

Still, there are severe headwinds in North America that could spoil NFI's turnaround. Should investors cry recession going into the U.S. presidential election, as a producer of long-lived discretionary equipment, NFI could still stand to be clobbered even further.

Coach sales have been weak, and they could get weaker if consumer confidence dips, potentially delaying future coach purchases to a much later date (after the next recession hits).

You can't blame NFI's management team for unfavourable industry conditions. The late stages of the market cycle mean big-ticket purchases will be postponed. What you *can* blame management for is its sub-optimal dealing with operational challenges faced over the past few years.

Fortunately, the bus seems to be headed back in the right direction. And should the global economy bounce back from its slowdown, we could see industry headwinds fade, giving NFI stock a runway for a sharp rebound.

In any case, NFI stock is getting ridiculously cheap. The stock trades at 10 times next year's expected earnings, 0.46 times sales, and 1.6 times book — a low price of admission for a name that could literally pay big dividends down the road.

Foolish takeaway

The tables could quickly turn in NFI's favour once again. While it may not happen in 2020 as management expects, I find it likely to occur in the early 2020s, as the company cleans up its operations and looks get deliveries back on track.

The dirt-cheap valuation and the large dividend, I believe, are more than enough reasons to hold the name in spite of its negative momentum.

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Date
2025/08/26
Date Created
2019/12/20
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