TFSA Investors: Forget Penny Stocks … Aim for a Million With This Small-Cap Gem!

Description

If you're a young person like a millennial who's looking to save up for retirement, you're going to want to take risks given how absurdly unrewarding risk-free assets like bonds, GICs, and all the sort have become in an era of rock-bottom interest rates. When I say "take risks," I mean using one's TFSA to invest in hyper-volatile securities with multi-bagger potential over the long term, not speculating on the latest "sexy play" with little to no regard for valuation.

There's a difference between speculating and investing in extremely volatile hyper-growth stocks with difficult-to-pinpoint valuations.

The latter strategy can make millionaires out of today's young investors who possess the willingness and ability to take on higher risks. Making a quick buck from trading the next Bitcoin may feel good, but hanging onto a stock that's at the forefront of a generational opportunity or a turnaround for the ages is likely to be profoundly more rewarding for those willing to delay gratification.

For those seeking a multi-bagger, it's worthwhile to look to established small- and mid-cap names given they've got a longer runway for growth. Such smaller-cap securities tend to be priced less efficiently relative to their blue-chip behemoth counterparts, improving the odds that an investor can pay a dime to get a dollar, so to speak.

Without further ado, consider the following small-cap stock, which I see as a hidden gem buried beneath the dirt.

Aim for a million … with a tissue company?

If you have a glimpse at the TSX Index's top performers of the last decade, you'll see that there are a tonne of stocks within industries that most would consider "boring." As such, investors should not shun "boring" stocks, because although they're stable and make for dull conversations at the water cooler, they are still capable of building substantial wealth for one over the long haul.

KP Tissue (TSX:KPT), the company behind toilet-paper-maker Kruger Products, is about as boring as they come. Tissues, paper towels, napkins, and toilet paper are ridiculously boring and completely "unsexy" to invest in! But when it comes to investing, sometimes boring is beautiful, and I'm sure Warren Buffett, a man who's made billions off boring businesses, would agree.

KP sports a 6.6% dividend yield as a result of substantial capital depreciation over the years as a result of unfavourable input cost moves and a less-than-stellar operational track record. The demand for the paper necessities that KP produces is likely to be stable, even in the event of an economic downturn. The real source of volatility, as I mentioned in a prior piece, comes from KP's sensitivity to fluctuating pulp prices. As a result, KP is a bit of an oddball stock that's defensive in nature but is sensitive to commodity prices.

What I like about KP, though, is the dirt-cheap valuation (at the time of writing, KPT trades at 17 times next year's expected earnings and 1.35 book), the fundamental improvements made over the past year, and the room for further improvement. The company can't control input costs, but what it can control are operational efficiencies, and management has been proactively looking to improve company-specific matters to become more robust.

With pulp prices expected to be less volatile over the coming years, KP could have a tonne of room to run. And although the dividend is stretched, it looks sustainable given KP appears to be on the verge of a turnaround.

Foolish takeaway

Can a toilet paper company make you rich?

You'd better believe it. Although the dividend makes the name enticing to retirees, I think it's better suited for younger investors given the extremely volatile nature of the stock (1.6 beta) and the fact that it's a "riskier" small-cap with a market cap of just $106 million. KP has tremendous turnaround potential, and as efficiency initiatives pay off, we could see KPT stock triple in price while its yield reverts towards mean levels.

Stash the name in your TFSA, lock in the yield, and hang on for the ride.

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Date
2025/07/03
Date Created
2020/02/12
Author
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