TFSA Investors: Double Your Money With This Cheap Dividend Stock

Description

In these uncertain times, is it prudent to allocate high dividend stocks to your Tax-Free Savings Account (TFSA)? With interest rates nearing record lows, surely bonds remain unattractive despite a substantial increase in volatility in the equity markets.

Identifying undervalued dividend stocks will not only provide investors with a steady stream of income, but will also increase wealth by capital appreciation. One such company is **Transcontinental** (TSX:TCL.A) a leading printer and packaging company. With over 41 operating facilities and $3 billion in annual revenue, Transcontinental should be on the radar of most dividend investors.

Stock is down 28% from 52-week high

We have seen equity markets burn significant investor wealth driven by the dreaded COVID-19 pandemic. While the **iShares S&P/TSX 60 Index ETF** is down 20% from record highs, Transcontinental has lost 28% in market value.

Transcontinental is Canada's largest printer and the country's leading publishing group of French-language educational resources. In the last few years, it has expanded aggressively into the packaging segment as well via acquisitions.

Due to this inorganic growth, TCL's and business diversification company revenue has increased from $2 billion in 2017 to $3.03 billion in 2019. Adjusted EBITDA also rose from $397 million to $476 million in this period.

Forward dividend yield of 7.1%

TCL's recent pullback in stock price has increased its forward dividend yield to a tasty 7.1%. In 2019, it paid $76 million to shareholders in dividends, up from $69 million in 2018 and $61 million in 2017.

With operating cash flow of $432 million, the company's payout ratio stands at just 17.6% giving TCL enough room to easily increase these payouts going forward. Between 1993 and 2019, the company has increased dividends at an annual rate of 11% from $0.06 per share to $0.87 per share.

The company has a net debt of $1.16 billion and has reduced this figure by $250 million in the last year. A low debt to equity ratio will again help the company distribute a larger amount of operating cash flow to shareholders due to lower interest payments.

If you allocate $20,000 to Transcontinental, you will receive $1,420 in annual dividend payments.

The verdict

Transcontinental will continue to focus on expanding its market share in Canada's printing and packaging markets which will drive cash flows higher. Driven by a number of acquisitions over the years, revenue from packaging accounted for 53% of total sales in 2019, up from just 2% in 2014.

Despite robust sales growth, TCL is trading at a price-to-sales ratio of 0.36 and a price-to-book ratio of 0.66. Its enterprise value to revenue multiple of 0.73 is also low, making it one of the cheapest stocks on the **TSX**.

The coronavirus pandemic has hit sectors in the airline and hospitality. Companies in these industries have seen a considerable decline in market cap over the last two months.

However, TCL and peers should not experience a drastic impact on its top line. Lower consumer spending and fears of a recession will continue to haunt investors, but the company's strong leadership position, steady fundamentals, high dividend yield and cheap valuation make it a strong bet in the current market environment.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:TCL.A (Transcontinental Inc.)

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Date
2025/08/28
Date Created
2020/04/13
Author
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