TFSA Investors: Invest $500 in This TSX Dividend Stock Right Now!

Description

The COVID-19 continues to wreak havoc on individuals and businesses all around the world. While no one can predict what the future holds with any certainty, the current market volatility provides investors with an opportunity to buy quality stocks at a reasonable valuation. It is impossible to time the market. So, if you have some contribution available in your Tax-Free Savings Account (TFSA), consider this **TSX** stock for multi-fold returns.

The TFSA contribution limit for 2020 stands at $6,000 and you can allocate a part of it to buy dividend stocks like **NFI Group** (TSX:NFI). There are several dividend-paying stocks listed on the TSX and NFI is one of many such companies.

NFI reports Q1 results

NFI Group is the largest bus manufacturer in North America. The company reported its results for the first quarter of 2020 and while the numbers were decent, the outlook for the rest of the year isn't encouraging. NFI reported revenues of $710 million for the first quarter, up 25.3% year over year. NFI Group reported adjusted EBITDA of $56.1 million which was down 7% and cash flow stood at $14.2 million, a massive decline of 56%.

NFI's profitability was impacted by higher operating costs and lower gross margins. Free cash fell due to lower EBITDA and high interest expenses. At the end of Q1, NFI had a backlog of $5.1 billion.

The company had to idle almost all of its new vehicle production facilities from the end of March to the end of May. The private segment that accounts for almost 12% of NFI's revenues has seen a slew of cancellations and deferrals. Its MCI brand in North America and Plaxton in the U.K. have both taken major hits.

Nearly 90% of the coaches in the private sector are idle right now, which has been responsible for the cancellations and deferrals. As vehicles are idle, there's no demand for aftermarket part sales either.

NFI expects the second quarter to reflect a "…significant decrease in revenue and adjusted EBITDA net earnings and free cash flow from the same period in 2019, all driven by the disruption of this pandemic." While management expects the latter half of the year to be impacted by the virus, it may not be as serious as the second quarter.

The market has factored in a bad second quarter that reflects the company's stock price of $13.76, down almost 60% from its early February price of $33.52.

Public transit demand might drive top-line growth

One thing that NFI has going for it that a large number of its buses are used for public transit. And as the world slowly returns to something approaching normalcy, its buses will be the ones ferrying around people who can't afford private vehicles or taxis. But will the buses be ferrying around the same number of passengers as they used to? That seems unlikely.

A poll by transport consultancy SYSTRA in the U.S. revealed that 20% of people travelling by buses will reduce their trips once travel restrictions are lifted. The number rises to 27% for rail passengers.

And even when buses do get back on the roads, there will be restrictions on the number of passengers, fares might be higher as authorities spend more on sanitizing buses, and it will take some months for ordering new buses. That said, NFI had a win in April when 140 units were ordered by the Miami-Dade County in Florida.

Why this Canadian dividend stock is ideal for your TFSA?

We can see that NFI Group is ideal for investors with large risk appetites. It has fallen over 60% this year and the company had to cut dividends by 50% due to the ongoing COVID-19 pandemic.

Despite the cut, NFI pays annual dividends of $0.85 per share indicating a forward yield of 6.2%. NFI dividend payout ratio in Q1 stood at 67% which makes dividend yield sustainable.

NFI has decreased its capital expenditure and cut its employee count to improve liquidity. It is North America's largest bus manufacturer and should move higher once COVID-19 fears subside.

Your TFSA should have a diversified exposure to stocks. Investing in a high dividend yield stock like NFI gives an opportunity to grow long-term wealth.

CATEGORY

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1. TSX:NFI (NFI Group)

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