1 High-Yield Dividend Stock Can Help You Get Rich

Description

Many of the stocks that fell in March have now recovered. They have started trading at their pre-crash values. But some, especially those belonging to the energy and air travel sectors, are having difficulty rallying. It's troublesome for investors who already have a stake in companies from these sectors (especially those who depend upon systematic withdrawals).

Bor new investors, it presents a once-in-a-decade opportunity.

By picking up the right dividend stock when it's trading at a steep discount, you can lock in very attractive dividend yield. And if the stock has growth potential too, then you are likely to win on two fronts with such an investment. One company that you might consider in this regard is **Exchange Income Fund** (TSX:EIF).

The company

Exchange Income Fund is a $928 million market-cap company. Its focus is strategic acquisitions in aerospace and aviation services and equipment and manufacturing. It targets niche players in their respective sectors with strong cash flows and has a diversified portfolio of several such acquisitions. From 2004 to 2019, the company has made fifteen major acquisitions.

The company portfolio is divided into passenger handling, cargo, training, surveillance, manufacturing, communication, and equipment subsidiaries. This diversification is one of the reasons why I can recommend this stock, despite the whole airline sector becoming a taboo for many investors.

The stock

Exchange income is trading at $26.4 per share; that's over 41% from its start-of-the-year value. While it's far up from its March valuation when it hit rock bottom, it's still significantly below its fair market value. It has also pumped the yield up to a juicy number of 8.6%, and payout ratio to a dangerous number of 106%.

Despite the market crash, the recently revealed first-quarter results are not as bad as others in the airline sector. Compared to the first quarter of the previous years, the revenue grew by 3%, EBITDA dropped by 10%. The company registered a net loss of $5.2 million, but that can be absorbed, especially if you consider the company's cash pile of $118 million.

The dividend growth rate of exchange income is very slow, but it's consistent, and despite an alarming payout ratio for the current year, the dividends seem relatively safe. If the company and the sector in general don't face another obstacle on the way, it might recover its losses, and the stock may start growing at its former pace.

Despite the slow dividend growth, the yield and capital growth potential are enough to make you rich. If you invest $30,000 in the company now and it increases its market value by 10.15% every year (its current five-year CAGR), you may make half a million dollars in 30 years — not to mention a monthly sum of $215 in dividends that you can either consider a passive income or reinvest in the company.

Foolish takeaway

The airline sector is rife with risk right now, but it's also full of the most discounted stocks currently trading on the **TSX.** Thanks to its diversified portfolio, Exchange Income is in a unique position to offer you both — the discount incentive of the sector and the growth prospect of an otherwise strong stock.

But you have to evaluate the stock per your own risk metrics to see if it qualifies.

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1. TSX:EIF (Exchange Income Corporation)

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