3 Companies With No Dividends That Are Worth Buying

Description

When investing, dividends are always nice to have. The problem is that dividends are in high demand, and that can mean paying some steep prices for companies that offer them. With the baby boom generation entering retirement, the steady income from dividend paying stocks will remain sought after for a long time.

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But what if you don't need the income right away? What if you're a long-term investor? Does it really make sense to pay a premium for a dividend? And if a company gets such high returns, wouldn't you want management to reinvest its income back into the business?

In Canada, there are a few companies that do not pay any dividends at all. Nor should they. And because there isn't any payout, they trade at very attractive prices. If you don't need dividend income right away, these companies should be on your radar screen.

MEG Energy

There are few energy companies in Canada with better assets than **MEG Energy** (TSX: MEG). The company owns very high-quality heavy oil properties, as well as some key supporting infrastructure. As a result, operating costs per barrel are rock bottom. In 2013, it cost MEG only $13.41 (including royalties and transportation) to produce and sell a barrel of oil. This translates into tremendous return on invested capital.

MEG is in growth mode, and will be for the foreseeable future. Fourth quarter production was just over 42,000 barrels per day, over 30% higher than a year earlier. And the company plans to nearly double production again by early 2015. With such high quality assets, the company has no better use for its money – not even dividends.

BlackPearl Resources

BlackPearl Resources (TSX: PXX) is a more speculative energy stock than MEG. Its assets are notas high in quality. And its largest project, Blackrod, remains unfunded. But the stock is extraordinarily cheap.

Currently the company has $6 per share of reserves, yet the shares only trade slightly above $2.50. In fact the company could walk away from Blackrod and still be undervalued based on the value of its other projects.

The company is also run by a CEO, John Festival, who has an excellent track record. He worked previously at Blackrock Ventures, which was eventually sold to Shell for $2.4 billion, enriching a lot of shareholders in the process.

Solium Capital

Solium Capital (TSX: SUM) develops and sells software for managing employee share ownership plans. It has been very successful as of late. Over the last three years, revenue has gone up 150%, and pre-tax margins are a healthy 16%. The balance sheet is clean as well; Solium has zero debt.

As a result, shareholders have been handsomely rewarded. In 2012, the shares nearly doubled, and last year they nearly tripled. The stock is richly priced, but could reap additional rewards if management continues to follow through.

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Foolish bottom line

It is important to remember that if a company can invest money very effectively, whether it’s growing energy production or software revenues, you’re better off if it doesn’t pay a dividend at all. And as a bonus, these companies can trade at a nice discount to their high-yielding peers. Anyone who doesn’t need the income right away should keep these companies on their radar screen.

CATEGORY

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