Want Growing Income? These 4 Dividends Are Set to Surge

Description

Many investors, especially those nearing retirement, are looking for similar types of stocks. They want to invest in companies with solid operations, sharp management, and steadily growing businesses. Generally, these types of stocks have one thing in common — they have solid dividends that tend to grow over time.

Investors who are a few more years from retirement might look to slightly alter their dividend growth strategy. Instead of buying stocks with solid current yields in the 3-4% range with solid growth prospects, why not buy companies with current yields *below* 3% that have the potential to grow dividends at a higher clip over the next decade?

These companies are somewhat difficult to identify, since trying to guess which will have continued success over a decade isn't exactly the easiest thing in the world. Still, there are certain things we can look at that may suggest a company has potential for huge dividend increases. Here are four that could reward investors.

Saputo

If everything comes together for **Saputo** (TSX: SAP), investors are not only looking at a dividend machine, but also a stock with substantial capital gains.

The company has transformed itself from Canada's largest dairy producer into a significant worldwide player, with operations in the U.S., Argentina, and most recently, Australia. Not only does its recent acquisition of Warrnambool give it exposure to the Australian market — which, per capita, is one of the largest milk consuming markets in the world — but it also opens high-growth export markets such as China and South Korea to the company's dairy products.

Plus, Saputo's current dividend payout ratio is just 35% of its net earnings. This low payout ratio, combined with potential earnings growth, means the 23-cent quarterly dividend could be significantly higher in five years.

Imperial Oil

Imperial Oil (TSX: IMO)(NYSE: IMO) is one of Canada's largest oil and gas producers, has Canada's largest refining operations, and operates more than 1,800 service stations. It produces more than 250,000 barrels of oil per day from operations that span all of Canada, including exposure to the oil sands.

It also only pays out a 52-cent annual dividend, a yield of just less than 1%. Investors looking for current income will be less than impressed, but people looking into the future will see a company paying just 15% of its net income out as dividends. Imperial Oil could easily quadruple its dividend, just based on current earnings. Look for the company to increase its dividend in a big way in the future.

Metro

Another company with a strong payout ratio is **Metro** (TSX: MRU), Canada's third largest grocer. The company, which has more than 350 stores in Ontario and Quebec, pays out just 26% of its net income out as dividends, good enough for a current yield of 1.8%.

Metro has already begun rewarding shareholders, increasing its dividend five times over the past five years. Investors who bought shares five years ago were not only rewarded with a 90% increase in the share price, but they'd also enjoy a yield on cost of nearly 4%.

While analysts aren't forecasting spectacular earnings or revenue growth for the company, it still should have no problem rewarding shareholders with an annual dividend increase for years to come. It's a good, steady performer, which also should provide security during the next market downturn.

Gildan Activeware

Even though shares in **Gildan Activewear** (TSX: GIL) currently only yield a paltry 0.8%, the company has terrific potential as a dividend growth stock.

The current payout ratio is a microscopic 17% of net earnings. That, combined with the company's impressive growth — it has almost doubled revenue and increased net profit by 50% since 2010 — mean it's poised to start increasing its dividend in a big way.

The company has already started to reward shareholders, increasing its quarterly payout more than 50% since first starting to pay it in 2011. The company also has a pristine balance sheet with very little debt, leaving it plenty of wiggle room to reward shareholders with ever increasing dividends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:MRU (Metro Inc.)

5. TSX:SAP (Saputo Inc.)

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