3 Stocks Poised to Raise Their Dividends

Description

Which do you think is normally better for investors: a large dividend or a growing dividend?

Of course it depends on the numbers specifically, as well as the price you pay. But in general, option B is what you should be looking for. While a big dividend yield is nice, it often indicates that a company is on shaky ground. Making matters worse, big dividends are very popular these days, so high-yielding companies are likely to be overpriced.

Instead, you should be looking for companies that don't yield much today, but have plenty of room to raise their dividend. These firms tend to be more stable and their stocks are less likely to be overpriced. Below are three such companies.

1. Canadian Tire

At first glance, **Canadian Tire Corporation** (TSX: CTC.A) doesn't seem like a good option for a dividend investor. Even after hiking its payout by 25% in January, the stock still yields only 1.7%.

But Canadian Tire is expected to earn over $7 per share this year, quite a bit for a company with a quarterly dividend of $0.4375. So the company has plenty of room to increase its payout further.

2. Manulife

Like Canadian Tire, **Manulife Financial** (TSX: MFC)(NYSE: MFC) has a fairly low dividend yield, currently 2.4%. But also like Tire, Manulife makes a lot more money than it pays out.

Last year, Manulife made $1.62 per share in earnings, yet paid out only $0.52 per share in dividends. So why hasn't Manulife raised its dividend already? Part of the reason dates back to the financial crisis, when Manulife was burned very badly. The company had to slash its dividend at the time and struggled to raise enough capital. Understandably, Manulife does not want to relive that experience and has not raised its dividend since.

But Manulife is now the best-capitalized of Canada's big three life insurance companies, so it has plenty of leeway to hike its dividend. Sooner or later, shareholders will get rewarded for their patience.

3. Tim Hortons

A discussion about dividend growth would not be complete without mentioning **Tim Hortons** (TSX: THI)(NYSE: THI). The company is best known as Canada's dominant quick-service restaurant, but should also be well known among investors for its dividend growth record. Back in 2006, when Tims went public, it offered a quarterly payout of $0.07 per share. Today, that dividend stands at $0.32 per share, an increase of 360%!

Amazingly, Tims still only yields 2.1%, and like the first two companies, it's because of a low payout ratio. In 2014, Tim Hortons is expected to make $3.24 per share in income, yet pay out only $1.28 per share. So investors should be able to count on that dividend rising further.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:MFC (Manulife Financial Corporation)

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