3 Companies Poised for Explosive Dividend Growth

Description

Investors around the world are looking for what some consider the holy grail of investing — dividend growth.

Depending on their goals, dividend investors can be divided into three groups. The first is obsessed with current yield, looking to get paid now. The second is looking for stocks with a small current dividend, but offer terrific potential for growth. And the third group looks for companies that offer a combination of the two — a solid current yield with reasonable growth.

For young investors with plenty of time until retirement, loading up on companies with high-growth potential is a good idea. They can buy them now when income isn't a pressing need, and hold them while they continue to grow. By the time these investors need the income from these high fliers, chances are their businesses will have matured, and they'll be paying much higher dividends.

As an added bonus, investors who get into these types of stocks now are looking at huge potential yields on cost. How good would it feel turning $10,000 now into $2,000 in future annual income? With these three stocks, that's certainly possible.

Saputo

When investors think about long-term growth stories, usually the first companies that come to mind are in sexy sectors like the internet, biotech, or some cool gadget maker. And yet, one of the biggest opportunities today is in a decidedly unsexy sector — dairy.

Not only is **Saputo** (TSX: SAP) Canada's largest dairy producer, but the company also has operations in the U.S., South America, and, most recently, Australia. The milk business is one of the most fragmented in the world, with at least a couple local producers in most countries on the planet. Management sees opportunity in all sorts of markets, like Brazil, New Zealand, and further opportunities in Canada and the U.S.

But perhaps the greatest opportunity is in China. As the country continues to get richer, consumers will up their milk intake. Additionally, local producers are plagued with production and quality issues. The market for imported milk could explode.

Currently, Saputo only pays a 1.4% dividend. But it also only pays out a little more than a third of earnings to investors. At this point, it's smart for the company to continue using earnings for acquisitions, but patient investors will be rewarded with much higher dividends eventually.

Dollarama

Even though Canada's retail sector is extremely crowded, there's one company continuing to deliver stellar growth. **Dollarama** (TSX: DOL) has delivered sales growth by more than 10% annually, and plans to open another 80 locations this year to add to its existing 900-something store footprint.

The company's medium-term plans include bumping the number of stores in Canada to 1,200. Additionally, it entered into an agreement to supply 15 stores in El Salvador, with an option to buy the chain in 2019. It's still too early to judge the results in Central America, but if management can repeat the company's success in other markets, Dollarama has the potential to be a huge win for investors.

The company's shares only currently yield 0.7%, but investors are already being treated to impressive dividend growth. The quarterly payout has been raised four times since 2011, currently resting at 16 cents per share.

Suncor

Suncor (TSX: SU)(NYSE: SU) is the largest player in Alberta's oil sands. Current production is over 400,000 barrels of bitumen per day, and the company owns all sorts of additional land in the region. It's poised to dominate the oil sands for decades.

The company's reserves are staggering. It has more than 40 years of crude still in the ground based on current production, without doing any additional prospecting. And it's also cheap, with shares trading at less than book value and at a trailing P/E ratio of just over 15x.

Because the company has been using the majority of its cash flow to expand operations, pay down debt, and buy back shares, the current yield is just 2.1%. And yet, the payout ratio is just 32% of net income. The company can easily afford to pay out more, and should start to reward investors with some big dividend hikes.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:DOL (Dollarama Inc.)
3. TSX:SAP (Saputo Inc.)
4. TSX:SU (Suncor Energy Inc.)

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