3 Dividends That Could Double in 3 Years

Description

When searching for dividend stocks, it can be very tempting to go for the biggest yields. This is understandable—after all, who can resist some extra income?

But time and again, that has proven to be the wrong strategy. Big dividend yields often come from risky stocks, and if a company's dividend is cut, then its share price can plummet. We've seen this happen to many companies in the past 12 months, and not just in the energy sector.

There's a better strategy: buy companies that have stable businesses, but a very low dividend. Then, when these companies do raise their payout, there's lots of upside for their stock prices. Below we look at three such companies.

1. Manulife

During the financial crisis, no Canadian financial institution suffered more than **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC). At the time the company struggled to raise enough capital to stay afloat. Today the story is very different. Despite some hiccups in the energy sector, Manulife is firing on all cylinders, and growth prospects look very strong, especially in Asia.

Yet the memory of the financial crisis looms large. And for that reason, Manulife has been very hesitant to raise dividends, preferring instead to build up capital. To illustrate, its MCCSR ratio (the standard capital ratio for life insurers) stands at 245%. To put that in proper context, its two big rivals have MCCSR ratios of 222% and 216%.

More recently, Manulife has bumped up its dividend, but the stock still only yields 3% on a forward basis. If the company continues its success in Asia, stops the bleeding in the energy patch, and continues to hike its payout, then this dividend could really take off.

2. Canadian Tire

Not much has gone wrong for **Canadian Tire Corporation Limited** (TSX:CTC.A) in the past couple of years, and its stock price has responded in kind. Yet the company's dividend remains very low.

Last year Canadian Tire made $7.59 per share, yet the annualized dividend currently stands at only $2.10, good enough for a 1.6% yield. This seems very strange, especially since Tire has no plans for international expansion (it has tried that twice already and failed both times).

Thus far, the company has found some other ways to invest its profits: it has expanded the Sport Chek banner; it has bought some leases formerly held by Target Canada; and it is also buying back up to four million shares this year, about 5% of the total.

Yet these growth plans should eventually peter out (you can only grow so much in Canada), and a reduced share count should make dividend increases more affordable down the road.

3. Magna

Like Tire, **Magna International Inc.** (TSX:MG)(NYSE:MGA) has had a great couple of years, and shareholders have done very well as a result. Yet the quarterly dividend still only stands at US$0.22, a 1.6% yield.

This dividend could easily head much higher for a few reasons. First of all, low oil prices are a big plus for the auto industry, which should enable Magna to keep growing earnings. Secondly, the company has an extremely strong balance sheet, a legacy of founder Frank Stronach. So, Magna doesn't have to worry about running out of cash, which is something that should be very appealing to dividend investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:MGA (Magna International Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:MFC (Manulife Financial Corporation)
5. TSX:MG (Magna International Inc.)

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