Dividend Investors: Check Out These 3 Future Dividend-Growth Superstars

Description

Most investors I know are looking for the holy grail of dividend-growth investments—getting in on the bottom floor of a company where there's potential for decades of continued growth and dividend increases.

But I think many investors go about this the wrong way. Many look to the past for confirmation, choosing to focus on investments that have done well over the past few decades. Looking backwards can be quite useful, but I'm not sure it's an effective way to identify the next wave of success. Twenty years ago, many of Canada's largest companies certainly weren't household names.

To be a potential dividend-growth superstar for the next few decades, a company needs a few different characteristics. It needs a market that is either ripe for domination or is growing like crazy. It needs a great management team that's focused on seizing that opportunity. And finally, it needs to be in a business that's proven to be profitable. You could make the argument that companies like **Twitter** and **Facebook** are future dividend champions, but without the proven ability to generate cash and pay it back to shareholders, I'm skeptical.

Here are three Canadian companies with that kind of potential.

Dollarama

When it comes to growth stories, most people aren't thinking of Canada's retail sector. For the most part, they're right—with one big exception, **Dollarama Inc.** (TSX:DOL).

Dollarama has grown like a weed over the last two decades, expanding from a single store in Quebec in 1992 to nearly 1,000 stores coast-to-coast today. According to the company's estimates, there's room for at least 500 more stores in the medium-term, not even including potential international expansion.

Management has shown their ability to increase sales through innovation. The company has partnered with many of Canada's top food brands to create specialty sizes specifically for its stores, and has successfully expanded its product base to include items priced at $2 and $3.

Recent results have been nothing short of stellar. Sales increased 15%, with same-store sales up 8%. Quarterly earnings surged as well, popping up to $0.76 per share, compared with $0.54 during the same quarter last year.

The company pays a $0.09 per share quarterly dividend, a payout ratio of just 12% based on the last quarter's earnings. Needless to say, that's a dividend with loads of potential going forward.

AutoCanada

In Canada the car dealership business is incredibly fragmented. Nearly all the dealerships across the country are owned by individuals, small business owners who tend to own and operate just the one dealership. As these owners age, an opportunity opens up to consolidate the industry. **AutoCanada Inc.** (TSX:ACQ) looks to be the beneficiary of this.

AutoCanada is the nation's largest car dealer, owning approximately 50 dealerships across the country, with a focus on Alberta. Thanks to weakness in oil, the market has sent shares reeling, dropping the price from almost $90 per share a year ago to just $40 today.

Even including Alberta's weak numbers, profits for 2015 are expected to come in at $2.25 per share in 2015 and $3.20 in 2016. That's a huge growth rate, and it also gives management all sorts of potential to increase the 25 cent per share quarterly dividend.

Saputo

For **Saputo Inc.** (TSX:SAP), Canada's largest manufacturer of milk, yogurt, and other dairy products, China is the wave of the future.

The Chinese eat about an eighth of the dairy products per capita as North Americans do, which is bound to go up as the nation gets richer. Saputo is well positioned to capitalize on this with its 2014 acquisition of Warrnambool Cheese and Butter, Australia's oldest dairy. There isn't much potential to export fluid milk to China, but there's plenty of opportunity in dried products, the kind that typically get used in processed food products.

Saputo is a little rich at about 24 times earnings, but it comes with the kind of growth most domestic food companies can only dream of. It isn't just China with potential—management has identified opportunities in Brazil, New Zealand, and in the U.S.

Shares currently pay out $0.13 per quarter for a payout ratio of only 36%. Saputo has quietly given shareholders an annual raise for more than a decade, a streak that looks poised to continue for a long time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:SAP (Saputo Inc.)

Category

1. Dividend Stocks
2. Investing

Date
2025/07/23
Date Created
2015/05/29
Author
nelsonpsmith