Income Investors: Pay Attention to These 3 Unloved Dividend Machines

Description

I like to think of a dividend portfolio like a hockey team.

Each team needs a few superstars, players who can put the puck in the net. These players get the most time on the ice and all of the glory. They have a big effect on the overall results of the team.

But not every player can be a superstar. A hockey team has room for 22 players, each with different roles. There are shut-down defencemen, players who kill penalties, and face-off specialists who play an important role on each team. They excel at things that are every bit as important as scoring goals. They're just not things the casual fan is going to notice.

Your portfolio is the same way. If you stick to the largest, best-known dividend stocks out there, you'll miss some real gems. These companies might dominate a smaller market, or have an interesting advantage over the bigger competitor. They also usually have a better growth profile.

Here are three companies you might have missed.

Aimia

You probably know **Aimia Inc.** (TSX:AIM) as the parent company behind **Air Canada's** Aeroplan program. It works with banks on the popular Aeroplan credit cards, and offers the points to retailers as a perk to give to customers. Canadians can earn miles by shopping at Esso, Home Hardware, and by staying at Delta and Fairmont hotels.

Aimia is a free-cash flow machine. In 2015 management projects the company will earn between $220 and $240 million in free cash flow, which works out to approximately $1.40-1.50 per share. That's very cheap for a company currently trading at $12.13 per share.

Aimia is also shareholder friendly. The company has bought back more than $160 million in stock thus far in 2015, and is still sitting on nearly $500 million in cash. It also pays a very generous dividend, which currently yields 6.3%. Aimia has also hiked its dividend each year since 2011.

Genworth MI Canada

In 2009, amid financial difficulties for its parent company, **Genworth MI Canada Inc.** (TSX:MIC) became publicly traded. Genworth is Canada's largest private mortgage insurer, writing some $200 million worth of premiums in the last quarter alone.

Genworth is a very cheap stock; it trades for approximately 20% under its book value, and has a P/E ratio of just 7.2. The company also pays a very generous 5.2% dividend, which it has raised every year that it has existed as a publicly traded company. This cheapness persists despite any potential upside it could get to earnings when interest rates finally start heading higher.

Why is Genworth so cheap? Investors are concerned about Canada's housing market, which would certainly take Genworth lower if it corrects in a big way. But bears have been pounding the table for years on Canadian housing, and even areas like economically depressed Alberta are seeing prices hold up reasonably well.

Power Financial

Power Financial Corp. (TSX:PWF) is essentially a holding company with some very large holdings. It holds 67% of **Great-West Lifeco**, which owns subsidiaries like London Life, Canada Life, and Putnam Investments. It owns 60% of **IGM Financial,** the parent company of Investors Group and Mackenzie Investments.

It also holds a 50% stake (along with the Frere family group of Belgium) in Parjointco, a holding company that has significant positions on some of Europe's largest stocks. It owns large positions in companies like the Brussels Stock Exchange, Total, Imerys, and Pernod Ricard.

Altogether, the parts trade at a discount of between 15 and 20% of what they'd be worth in the open market. And since all the subsidiaries pay generous dividends, shareholders of Power Financial get paid well too, with a dividend yield of 4.75%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AIM (Aimia Inc.)

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