Dividend Investors: Don’t Be Deterred by Low Yield

Description

Canadian investors are constantly running stock screens for the highest-yielding names in the S&P/TSX 60, but that might not be the smartest way to pick dividend stocks.

When looking for investment opportunities, investors should consider dividend growth rather than the yield when evaluating their next picks.

Big yield is often a sign of trouble, especially if the distribution has not increased for a number of years, and a falling stock can quickly make a sub-par payout look juicy.

In contrast, low yield is often a sign of great performance. Some companies have reliable histories of dividend growth, but the market never lets the yield rise because investors drive the stock price up every time the company reports strong results.

Strong businesses also reward investors through share buybacks as well as growing dividends.

If you are looking for top dividend picks that fly below the yield radar, I think **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Metro Inc.** (TSX:MRU) are solid picks.

Canadian National Railway

Canadian National Railway is the perfect example of a top dividend-growth stock that offers a modest yield.

The company generates a ton of free cash flow and allocates a significant portion of it to share repurchases as well as dividend payments. In fact, free cash flow for the first nine months of 2015 was $1.741 billion. The railway paid out $750 million in dividends and spent $1.250 billion to repurchase 16.2 million shares.

Canadian National Railway increased its quarterly dividend by 25% earlier this year to $0.3125 per share. Five years ago, the dividend was just $0.135 per share. With that kind of growth you would think the yield would be high, but the dividend return is still only 1.6%.

Investors are certainly not complaining. Anyone who bought Canadian National Railway five years ago has watched the investment increase by 135%.

Metro

Metro operates 600 grocery stores and 250 pharmacies in Ontario and Quebec. The company just reported a 13.9% gain in year-over-year fiscal Q4 net earnings, and investors should see the strong results continue.

Metro pays a quarterly dividend of $0.117 per share, which is 16.7% higher than a year ago. The yield on the distribution is 1.2%.

The company has more than doubled the dividend payout in the past five years, and investors have benefited from a 150% gain in the stock price during that time frame.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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3. TSX:MRU (Metro Inc.)

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