



3 Stocks With Massive Dividend-Growth Potential

Description

Thousands of Canadian investors are starting to embrace a dividend-growth-investing approach.

It's a strategy that's particularly popular among retirees. They choose stocks with a history of raising the dividend at an annual rate that's higher than inflation, content to live on the ever-increasing distributions. If a stock doesn't meet the criteria, it gets punted from the portfolio. It's a pretty simple system, which is precisely why many investors like it.

I prefer a simple little twist to the strategy. Instead of looking for companies with a long history of dividend growth, I look for companies with a lot of overall growth potential plus a minuscule payout ratio. Sure, these companies might trade at a higher valuation than their mature brethren, but it's easy to make the argument that the valuation is well deserved.

There are plenty of mature companies out there that pay dependable dividends. There aren't so many pure growth plays with sky-high potential.

Here are three long-term dividend-growth machines I find particularly attractive today.

goeasy

You might remember **goeasy Ltd.** ([TSX:GSY](#)) by its former name, easyhome. It's a finance company that offers loans and other financial services to customers with shaky credit. It does this through a network of more than 180 department stores that allow customers to "rent to own" everything from laptops to couches. The company also offers unsecured loans up to \$10,000 at approximately 200 locations dedicated to that part of the business.

Loans have an annual interest rate of approximately 46%. Sure, there are write-offs, but they tend to stick around the 10% range. Once other costs are factored in, the company makes about 7-8% net margins. That's not a bad business.

There's still plenty of potential to grow the company. Revenue in the most recent quarter was up 18% compared with the same quarter last year with net income rising 80%. Perhaps most

impressively, investors today are buying that kind of growth for just 11 times trailing earnings.

The company earned \$1.67 per share in the last 12 months with analysts expecting 2016 earnings to shoot up to \$2.51 per share. And 2017 is expected to be even better with the company earning \$3.36 per share. With this kind of earnings growth, it should be easy for the company to grow the \$0.12 per share quarterly dividend handsomely for years to come.

Dollarama

There haven't been many Canadian retail success stories in the past decade. Most names in the sector are getting hurt by a tepid consumer, a weak Canadian dollar, and online sales decreasing traffic in malls. **Dollarama Inc.** ([TSX:DOL](#)) is a very notable exception.

Shares are up more than 700% from the company's 2009 IPO. Although an additional 700% upside from here is unlikely, there's still plenty of growth potential. Revenue was up 13% in the most recent quarter, driven by a 6.4% increase in same-store sales. Gross margins ticked up to 40%, which led to an increase in the bottom line from \$0.55 per share to \$0.78. Dollarama also opened up its 1,000th store during the quarter.

Over the last 12 months, Dollarama has earned \$2.77 per share while paying out a dividend of just \$0.36. That's a payout ratio of just 13%. Look for some serious dividend increases from this company in the next few years. It can certainly afford them.

Linamar

The auto parts sector has been hit hard lately as investors scared of a global slowdown have moved their capital to other parts of the market. This has created an opportunity for long-term investors to buy quality companies such as **Linamar Corporation** ([TSX:LNR](#)) at great prices.

Linamar trades at less than nine times trailing earnings, and that's even after increasing revenue by 25% year over year in its most recent quarter. Earnings shot up from \$1.21 per share to \$1.64.

At least according to analysts that cover the company, 2016 should be another good year. Earnings are projected to shoot up to \$7.55 per share, putting the company today at just 7.4 times forward earnings. Additionally, analysts have a mean price target of \$89 per share, which is 58% higher than today.

The company pays just a dime per share for a quarterly dividend, which is a pretty anemic 0.7% yield today. With a payout ratio of just 6.4% of earnings and a balance sheet with very little net debt, look for the company to start getting serious about increasing that payout in the very near future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:GSY (goeasy Ltd.)

3. TSX:LNR (Linamar Corporation)

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