Don’t Ignore These 3 Companies With Massive Dividend-Growth Potential

Description

Dividend-growth investors who identify the beginning of a major trend can really make money.

These days, the dividend-growth strategy has evolved into a favourite one for retirees and other folks seeking income now. They search for companies with decent, current yields with a demonstrated history of growing the dividend.

For folks not looking for a whole lot of price appreciation, this strategy works fine. As long as company’s share price stays relatively steady–or, ideally, slowly goes up over time–then all that really matters is the dividend.

But for investors who have a few decades to go until retirement, perhaps a different strategy is in order.

Instead of buying companies that have their best growth days behind them, focus on stocks that are still delivering good revenue and profit growth each year. Find the ones with low payout ratios, and investors can build themselves a portfolio of stocks that are poised to increase their dividends at a nice annual rate while still having the potential for nice capital gains.

Here are three stocks that should make up the bedrock of such a portfolio.

Intact Financial

Intact Financial Corporation (TSX:IFC) is Canada’s largest property and casualty insurer, making several acquisitions of smaller players over the last few years.

Intact consistently posts great results. Its combined ratio–a key measure of underwriting profitability for the insurance sector–is among the best in the business. This helps the company post nice results even after its investment portfolio is adversely affected by low interest rates.

The Canadian property and casualty insurance sector is incredibly fragmented. Intact is the dominant leader in the space with nearly double the market share as its leading competitor. Even with that edge, it only commands 17% of the market.

Since Intact consistently posts some of the best results out there, it seems pretty obvious there’s an advantage to being the biggest. This advantage will entice smaller operators to sell, which will increase Intact’s market share.

Intact has aggressively raised its dividend over the last decade, upping its quarterly payout from $0.25 per share in 2006 to $0.58 today, which is a 9% annual raise. With a payout ratio of just 36% of the company’s projected 2016 earnings of $6.53 per share, there’s plenty of wiggle room for it to continue those annual dividend increases. And at just 13.4 times forward earnings, Intact shares are reasonably valued as well.

Metro

The grocery business doesn't tend to be very exciting, but **Metro, Inc.** (TSX:MRU) has done a nice job delivering consistent growth in a mature industry.

In the company's fiscal 2015, revenue grew from $11.6 billion to $12.2 billion, good enough for a 5.5% gain on a same-store sales increase of 4%. There aren't many retailers in Canada posting those kinds of growth numbers, never mind from a grocery store chain with 590 locations.

Metro still has plenty of growth potential. It could expand further into the pharmacy business in Quebec, perhaps by acquiring **Jean Coutu**. Or it could move its supermarket business westward, moving out of its base in eastern Canada.

Even without those possible expansion plans, there's still plenty of dividend-growth potential. The annual dividend payout for 2016 is projected to be $0.56 per share, while earnings are expected to be $2.33 per share. That's a payout ratio of just 24%.

Cara

Billionaire investor Prem Watsa isn't shy about copying Warren Buffett. They're both in the insurance business, both invest in undervalued stocks, and both like the restaurant sector. It's of little surprise that Watsa's company **Fairfax Financial** is one of the largest shareholders in restaurant chain **Cara Operations Ltd.** (TSX:CAO).

Cara is the owner of some of Canada's largest restaurant chains, including Swiss Chalet, Harvey's, East Side Mario's, Montana's, Kelsey's, and most recently, New York Fries. With the addition its latest prize, the company has some 975 locations across Canada. Approximately 90% are franchised.

Analysts predict the company will earn $1.45 per share in 2016, putting it at a fairly expensive 17.9 times forward earnings. But with the quarterly dividend at just a dime per share, that puts the payout ratio at a puny 28%.

Cara also has plenty of growth potential. There are dozens of potential chains it could buy up.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:MRU (Metro Inc.)

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Author
nelsonpsmith