3 Undervalued Dividend-Growth Superstars to Add to Your Buy List

Description

As investors, it's our goal to outperform the overall market every year. There are many ways you can go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that meet these criteria:

- The company is a leader in its industry
- Its stock is undervalued on a forward price-to-earnings basis
- It has a high dividend yield or it pays a dividend and has an extensive streak of annual increases

I've scoured the market and selected three stocks from different industries that meet these criteria perfectly, so let's take a closer look at each to determine which would fit best in your portfolio.

1. Home Capital Group Inc.

Home Capital Group Inc. (TSX:HCG) is one of Canada's largest non-bank mortgage lenders with over $20.5 billion in loans under administration.

At today's levels, its stock trades at just 8.3 times fiscal 2016's estimated earnings per share of $4.41 and only 7.6 times fiscal 2017's estimated earnings per share of $4.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 9.7 and its industry average multiple of 13.2.

In addition, Home Capital Group pays a quarterly dividend of $0.24 per share, or $0.96 per share annually, which gives its stock a yield of about 2.6%.

It is also important to make two notes.

First, Home Capital Group has raised its annual dividend payment for 16 consecutive years, and its 9.1% hike in February has it on pace for 2016 to mark the 17th consecutive year with an increase.

Second, the company has a target dividend-payout range of 19-26% of its net earnings for the next three to five years, so its projected 8-13% annual-earnings-growth target should allow its streak of annual dividend increases to continue going forward.

2. Corus Entertainment Inc.

Corus Entertainment Inc. (TSX:CJR.B) is one of Canada's largest integrated media and entertainment companies with 45 specialty television services, 39 radio stations, and 15 conventional television stations among other assets.

At today's levels, its stock trades at just 10.2 times 2016's estimated earnings per share of $1.17 and only 8.5 times fiscal 2017's estimated earnings per share of $1.41, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 14.1 and its industry average multiple of 29.9.

In addition, Corus pays a monthly dividend of $0.095 per share, or $1.14 per share annually, which gives its stock a yield of about 9.5%.

It is also important to make two notes.

First, Corus has raised its annual dividend payment for 12 consecutive years, and its 4.6% hike in February 2015 has it on pace for 2016 to mark the 13th consecutive year with an increase.

Second, I think the company's increased amount of free cash flow, including its 3.5% year-over-year growth to $34.5 million in its first quarter of fiscal 2016, and its acquisition of Shaw Media Inc., which was completed on April 1 and is expected to be accretive to its earnings and free cash flow immediately, will allow it to announce a dividend hike when it releases its second-quarter earnings results on April 13.

3. Inter Pipeline Ltd.

Inter Pipeline Ltd. (TSX:IPL) is one of the leading providers of petroleum transportation, bulk liquid storage, and natural gas liquids extraction services in Canada and Europe.

At today's levels, its stock trades at just 18 times fiscal 2016's estimated earnings per share of $1.46 and only 17.8 times fiscal 2017's estimated earnings per share of $1.48, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.2 and the industry average multiple of 17.9.

In addition, Inter Pipeline pays a monthly dividend of $0.13 per share, or $1.56 per share annually, which gives its stock a yield of about 5.9%.

It is also important to make two notes.

First, Inter Pipeline has raised its annual dividend payment for seven consecutive years, and its 6.1% hike in November 2015 has it on pace for 2016 to mark the eighth consecutive year with an increase.

Second, I think the company's increased amount of funds from operations attributable to shareholders, including its 34% year-over-year growth to a record $733.1 million in fiscal 2015, and its reduced payout ratio, including 67.8% in fiscal 2015 compared with 77.3% in fiscal 2014, will allow it to announce a significant dividend hike when it reports its first-quarter earnings results on May 9.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CJR.B (Corus Entertainment Inc.)
2. TSX:HCG (Home Capital Group)

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