These 3 Passive-Income Machines Are Poised to Hike Their Payouts

Description

Thousands of Canadian investors have discovered a secret to making sure they have enough income in retirement.

The strategy is simple. These investors search for stocks with a history of rewarding investors with an annual dividend increase–usually at a rate higher than inflation. They stuff their portfolio full of these companies, holding on for the long haul. Sure, there are a few blow-ups along the way–dividends aren't guaranteed, after all–but overall the strategy works pretty darn good.

Some investors tend to focus almost entirely on a company's dividend history, choosing to heavily weight their portfolios in stocks like **Fortis** and **Telus**. These investors see little reason why the impressive streaks delivered the dividend-growth stalwarts of today won't continue.

It's a fine strategy, but I prefer something a little different. Instead of focusing on the past, dividend-growth investors should look forward. A stock with just a few years of dividend growth under its belt can be a great future investment provided it has a better growth profile than a mature blue chip.

This can be an especially powerful way for somebody with a couple of decades to go before retirement to build an income stream for their golden years. Low yields today will translate into a comfortable retirement if the growth thesis plays out.

Here are three stocks that have that kind of potential.

Alimentation Couche-Tard

Alimentation Couche-Tard Inc. (TSX:ATD.B) is the Energizer bunny of growth stocks. It just keeps growing and growing.

In the last five years alone, it has acquired more than 4,000 convenience stores in Canada, the United States, and Europe. Recent deals include scooping up 444 stores from Topaz, Ireland's largest convenience store chain, and the acquisition of 297 Esso retail stores from **Imperial Oil**. The latter transaction cost the company $1.7 billion.

As the company matures and growth slows a bit, I expect Couche-Tard to become a serious dividend payer. Right now the company pays a paltry $0.0675 per share quarterly dividend for a yield of under 0.5%.

But it has huge dividend-growth potential with an annual payout ratio is just over 10% of earnings. Once the company stops making acquisitions at such a torrid pace, look for the dividend to ramp up quickly.

WestJet Airlines

Even though **WestJet Airlines Ltd.** (TSX:WJA) already pays a relatively generous 2.7% yield, I think there's potential for the dividend to really explode over the next few decades.

WestJet has plenty of things going for it. The company has loads of expansion opportunities in North America alone, never mind places like Europe or Asia. Revenue from what the company calls ancillary sources–things like checked bag fees and customers using WiFi on the planes–is surging. And the company's low-cost business model means it can expand into new routes and use pricing power to capture market share.

WestJet earned $2.91 per share in 2015. It paid out $0.56 per share in dividends, which is a payout ratio of just 19.2%. With earnings likely to keep going up in the future, I like WestJet's long-term dividend-growth potential.

Empire

Don't let the negative P/E ratio and terrible performance of the company's shares over the last six months fool you. **Empire Company Limited** (TSX:EMP.A) is poised to be a dividend-growth superstar.

Empire is the parent company of Sobeys, Canada's second-largest grocer. In 2014 the company made a big splash when it acquired rival Safeway, a move designed to beef up its presence out west. Empire has struggled with Safeway, writing down the value of its prize as the local economy has struggled. When times get tough, customers search for cheaper options.

Empire is the cheapest grocery stock in Canada. It trades at just 6.5 times operating income (before one-time write-offs) compared to up 20 times for its rivals. It has a price-to-sales ratio of under 0.15, while its competitors trade at closer to 0.8 times sales.

Empire pays a dividend of $0.10 per share each quarter. Earnings are expected to recover next year, coming in at $1.55 per share. That's a payout ratio of just just 25.8%, which gives the company plenty of potential to really kick dividend growth into high gear once things improve for Safeway.

CATEGORY

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1. TSX:EMP.A (Empire Company Limited)

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