Income Investors: Check Out These 3 Underrated Dividend Machines

Description

There are certain dividend stocks that get all the attention.

These stocks have a few things in common. They tend to be huge businesses, owned by a large sampling of retail investors. They also tend to be businesses that touch just about everyone's lives in some way. Sectors like telecoms, utilities, and banks tend to give us the majority of these investing opportunities.

But by focusing on these well-known sectors, investors are doing themselves a disservice. There are dozens of interesting dividend stocks in Canada, companies with good businesses, solid growth plans, and best of all, attractive dividends with the potential to hike these payouts.

Here are three of the best dividend stocks that I don't think get the attention they deserve.

Great-West Life

Manulife Financial and **Sun Life Financial** get much of the attention in the insurance space, but there's a legitimate argument to be made that **Great-West Lifeco Inc.** (TSX:GWO) is a finer company.

First of all, we can look at the relative 10-year performance of each. Both Manulife and Sun Life are down over the last decade, at least based on the share price alone. Great-West is up. And remember, Manulife cut its dividend after the financial crisis. Great-West didn't.

Great-West also trades at a very reasonable earnings multiple, right around 13 times trailing earnings. Earnings are expected to improve in 2016, with the forward P/E ratio coming in at 11.5 times analysts' expectations. Insurance premium growth continues to be strong, and assets under management in the wealth management business have been bumped up nicely with the acquisition of a company in Ireland.

Last, but certainly not least, is the company's dividend. The current payout is $0.35 per quarter, which was increased some $0.02 per share already in 2016. With a payout ratio of just 50.5% of earnings, look for dividend increases to be the norm in the next few years. The current yield on this stock is 3.8%.

Crombie

Naysayers have one interesting criticism of the retail REIT business. What happens if buying stuff online becomes so dominant that traditional retailers run into real problems?

One part of retail I think is pretty insulated from that threat is grocery stores. Grocery delivery has existed in a primitive form for decades now, but has never been widely used. Customers are used to going to the store, and delivery doesn't really make sense except in certain dense urban markets.

This is good news for **Crombie Real Estate Investment Trust** (TSX:CRR.UN), one of Canada's largest owners of grocery store-anchored retail space. The company owns more than 250 different properties which span 17.4 million square feet of gross leasable area. The majority of those locations have either a Sobeys or a Safeway store as the largest tenant.

Grocery stores are good tenants. Business is usually pretty steady, and they pay for any improvements to the property, leaving the real estate company to distribute most of its earnings to shareholders. Crombie's payout ratio for 2015 was 93% of adjusted funds from operations. That's normally a little high for the REIT universe, but the company should be able to maintain the payout of 6.4%.

North West Company

Retail is normally a pretty tough business. Customers are price sensitive, and they know similar products are available in many other places. **North West Company Inc.** (TSX:NWC) is an attractive investment because it doesn't suffer from many of these downfalls.

North West stores are often the only store in town, located in rural spots in Canada's north. Since these stores are the only place for customers to get provisions for miles, they can charge whatever they want. This leads to much better net margins than more traditional competitors.

Earnings are expected to grow in 2016, pushing down the company's forward P/E ratio to approximately 15 times earnings, compared to 20 times today. This should be enough for it to easily cover its 4.4% yield. In fact, with a payout ratio of approximately 70%, the dividend could even go up in the next year. Either way, investors are still getting a nice yield to own a good business.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:NWC (The North West Company Inc.)

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