Beat the Market With These 3 Undervalued Dividend Dynamos

Description

As investors, it's our goal to outperform the overall market every single 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 the following 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 companies that meet these criteria perfectly, so let's take a closer look at each to determine if you should buy one of them today.

1. Canadian National Railway Company

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) is one of North America's five largest rail network operators with approximately 32,000 km of track, and it's one of Canada's largest full-load trucking companies with more than 1,050 owner operators.

Its stock currently trades at just 17.1 times fiscal 2016's estimated earnings per share of $4.48 and only 15.4 times fiscal 2017's estimated earnings per share of $4.95, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.7 and its industry average multiple of 20.7.

Additionally, Canadian National pays a quarterly dividend of $0.375 per share, or $1.50 per share annually, which gives its stock a yield of about 2% at today's levels.

A 2% yield may not impress you at first, but it's important to make the following two notes.

First, Canadian National's 20% dividend hike in January has it on pace for 2016 to mark the 20th consecutive year in which it has raised its annual dividend payment.

Second, the company has a target payout ratio of 35% of its net earnings, so I think its consistent growth, including its 16.3% year-over-year increase to $1.00 per share in the first quarter of fiscal 2016, will allow its streak of annual dividend increases to continue for the foreseeable future.

2. First National Financial Corp.

First National Financial Corp. (TSX:FN) is Canada's largest non-bank originator and underwriter of mortgages with more than $94 billion in mortgages under administration.

Its stock currently trades at just 10.4 times fiscal 2016's estimated earnings per share of $2.68 and only 9.7 times fiscal 2017's estimated earnings per share of $2.89, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.9 and its industry average multiple of 31.4.

Additionally, First National pays a monthly dividend of $0.14167 per share, or $1.70 per share annually, which gives its stock a yield of about 6.1% at today’s levels.

It’s also important to make the following two notes.

First, First National’s two dividend hikes since the start of 2015, including its 3.3% hike in October 2015 and its 9.7% hike last month, have it on pace for 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment.

Second, I think the company’s very strong financial performance, including its 8% year-over-year increase in mortgage originations to $2.9 billion in the first quarter of fiscal 2016, and its growing portfolio of mortgages under administration, including its 8.4% year-over-year increase to a record $94.3 billion in the first quarter, will allow its streak of annual dividend increases to continue for the next several years.

3. Ritchie Bros. Auctioneers

Ritchie Bros. Auctioneers (TSX:RBA)(NYSE:RBA) is the world’s largest industrial equipment auctioneer with 44 permanent auction sites in North America, Europe, the Middle East, Asia, and Australia.

Its stock currently trades at just 25.8 times 2016’s estimated earnings per share of US$1.18 and only 23.2 times fiscal 2017’s estimated earnings per share of US$1.31, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 28.2 and its industry average multiple of 26.6.

Additionally, Ritchie Bros. pays a quarterly dividend of US$0.16 per share, or US$0.64 per share annually, which gives its stock a yield of about 2.1% at today’s levels.

A 2.1% yield may not peak your interest at first, but it’s important to make the following two notes.

First, Ritchie Bros.’s 14.3% dividend hike in August 2015 has it on pace for 2016 to mark the 13th consecutive year in which it has raised its annual dividend payment.

Second, the company has a target dividend-payout range of 55-60% of its adjusted net earnings, so I think its very strong growth, including its 22.7% year-over-year increase to US$0.27 per share in the first quarter of fiscal 2016, will allow its streak of annual dividend increases to continue going forward.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RBA (Ritchie Bros. Auctioneers)
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4. TSX:FN (First National Financial Corporation)
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