2 Inexpensive Dividend-Growth Stocks to Pounce On Today

Description

As investors, we want to outperform the market every year, but our ultimate goal is to outperform the market over the long term. There are numerous ways you can go about this, but one of the best and least-risky ways is to buy stocks with great fundamentals. Here are some criteria you could use:

- The company is a leader in its industry with cash flows to support further expansion and acquisitions
- Its stock trades at inexpensive forward valuations, and it's expected to grow its earnings at a consistent rate
- It pays a dividend and has an extensive streak of annual increases

BCE Inc. (TSX:BCE)(NYSE:BCE) and **Metro, Inc.** (TSX:MRU) meet these criteria perfectly, so let's take a closer look at each to determine if you should buy one or both of them today.

BCE Inc.

BCE is Canada's largest communications company with approximately 20.93 million subscribers. It's the country's largest provider of high-speed internet services with 3.42 million subscribers, the largest provider of television services with 2.75 million subscribers, and the third-largest wireless provider with 8.28 million subscribers.

It has experienced steady growth in recent years, and this trend has continued in 2016. BCE's revenues is up 0.4% to $10.6 billion, its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) is up 3.3% to $4.4 billion, its adjusted net earnings is up 13.7% to $1.6 billion, its adjusted earnings per share are up 11.8% to $1.71, and its free cash flow is up 16.4% to $1.4 billion in the first half of the year compared with the same period in 2015.

Its strong financial performance has been fueled by its increased number of wireless, internet, and television subscribers, which it refers to as its "growth services," and the success in these segments has more than offset "the continued erosion in traditional wireline NAS lines."

BCE's growth prospects are also very strong going forward, most notably in its wireless segment. The

Canadian Wireless Telecommunications Association projects that mobile data traffic in Canada will grow at a compound annual growth rate of 42% from 2015 to 2020.

This increased data usage will lead to much higher revenues per subscriber–also referred to as its average revenue per user (ARPU)–and the significant barriers to entry into the industry will keep the company's competition limited.

BCE is also in the process of acquiring **Manitoba Telecom Services Inc.**, one of the leading providers of wireless, internet, television, phone, and security services and solutions in Manitoba. This transaction is expected to close in late 2016 or early 2017 and immediately be accretive to its free cash flow.

When it comes to valuations, BCE is very inexpensive. Its stock trades at 17.8 times fiscal 2016's estimated earnings per share of $3.50 and 17.1 times fiscal 2017's estimated earnings per share of $3.65, both of which are inexpensive given its estimated 5.1% long-term earnings-growth rate. These multiples are also very inexpensive compared with the industry average multiple of 21.5.

It also has one of the best dividends in the market. BCE's strong cash flows allow it to pay a quarterly dividend of $0.6825 per share, representing $2.73 per share on an annualized basis, and this gives its stock a high yield of about 4.4% at today's levels.

Its consistent growth of free cash flow has allowed it to raise its annual dividend payment for seven consecutive years. BCE has a dividend-payout target of 65-75% of its free cash flow, and its 4% hike in February has it on pace for 2016 to mark the eighth consecutive year with an increase. I think this streak could continue for decades, making its stock a value, high-dividend, and dividend-growth play. What more could a fundamental investor ask for?

Metro, Inc.

Metro is one of the leading food and pharmaceutical retailers and distributors in Quebec and Ontario. It operates more than 600 food stores under banners including Metro, Super C, and Food Basics, and more than 250 drugstores and pharmacies under banners including Brunet, Clini Plus, and Drug Basics.

It's been growing at a consistent rate over the last few years, and its growth has continued in 2016, as its sales increased 5% to $9.86 billion, its operating income before certain items increased 9.1% to $709.7 million, its adjusted net earnings increased 12.6% to $441.2 million, its adjusted earnings per share increased 17.8% to $1.79, and its operating cash flow increased 12.3% to $483.4 million in the first 40 weeks of 2016 compared with the same period in 2015.

Metro has stated that its growth in 2016 can be attributed to its merchandising strategies at its different banners and its continued investments in its retail stores, including its opening of six net new stores and major expansions and renovations at 31 existing stores. I think it will continue to deliver strong results going forward using its merchandising strategies, and there are numerous markets in which it can open new stores over the next several years.

Metro's stock trades at 19.2 times fiscal 2016's estimated earnings per share of $2.37 and 17.5 times fiscal 2017's estimated earnings per share of $2.60, both of which are inexpensive given its estimated

11.5% long-term earnings-growth rate. These multiples are also very inexpensive compared with the industry average multiple of 24.9.

In addition to trading at attractive valuations, Metro is one of the market's top dividend-growth plays. Its strong cash flows allow it to pay a quarterly dividend of $0.14 per share, representing $0.56 per share on an annualized basis, and this gives its stock a yield of about 1.2% at today's levels.

A 1.2% yield is not high by any means, but it's important for investors to note that Metro has raised its annual dividend payment for 21 consecutive years, giving it one of the 10 longest active streaks for a public corporation in Canada. Its 20% hike in January has it on pace for 2016 to mark the 22nd consecutive year with an increase.

Its consistent growth of operating cash flow could allow this streak to continue for the foreseeable future, making Metro both a value and dividend-growth play.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. NYSE:BCE (BCE Inc.)
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