Income Investors: These 3 Dividend-Growth Studs Are Just Getting Started

Description

Many dividend investors live almost exclusively in the past, choosing to invest in companies with a history of strong dividend growth. They feel secure in knowing a company has a record of rewarding shareholders with a raise each year.

I prefer a different method. I like to look forward, finding companies that still have a decent yield today, yet the growth potential to really grow their dividend in the future.

This won't always work out, of course. Predicting the future is a tough thing to do. But when it does work out, the winners can really make a difference.

Here are three companies that look poised to really supercharge growth in the years to come.

Magna

Magna International Inc. (TSX:MG)(NYSE:MGA), one of the world's largest auto parts manufacturers with locations in some 30 countries around the globe, might just be getting started.

According to rumours, the company will produce the much-anticipated Apple Car for **Apple Inc**., which might be the most anticipated car of all time. With a release date of 2019 or even 2020 in the cards, this won't add to the top or bottom line for a while. Still, it has the potential to be massive.

In the meantime, Magna should still continue to churn out great profits. In the last 12 months, the company has earned US$4.95 per share, putting shares today at just 8.1 times earnings.

The company pays a dividend of US$0.25 per share each quarter, giving it a yield of 2.5%. And, most importantly, it has a payout ratio of just 20.2%. Even if earnings growth slows down going forward, the company should still be able to easily afford dividend raises.

Premium Brands

Premium Brands Holdings Corp. (TSX:PBH) is a food distribution company. Most of its revenue comes from meat products, but the company also has other fresh food brands.

Premium Brands is a growth-by-acquisition story, particularly in the United States. Approximately two-thirds of revenue comes from the company's Canadian operations, which are primarily located in western Canada. The U.S. market is 10 times bigger than in Canada, and the company has really only cracked the surface down there.

Premium Brands certainly has a great deal of experience with acquisitions, purchasing seven different competitors in the last six years alone.

Shares of Premium Brands yield 2.4% with a dividend payout ratio of just 44% of free cash flow. Like with Magna, the company can continue to hike the dividend for years to come without any problem.

Davis and Henderson

The market is bearish on **DH Corp.** (TSX:DH), pushing shares down to 52-week lows because of weak results. Analysts are decidedly more bullish on the owner of software that focuses on the financial industry.

DH Corp. is a true powerhouse in financial technology. Approximately 42% of revenue comes from lending solutions, 21% from processing cashless payments internationally, 19% from payment processing here in Canada, and 17% from core businesses like the software used by your bank teller.

These contracts have a built-in stickiness to them because staff don't like change. That's an understated competitive advantage.

Expectations for 2017 are that the company will earn $2.55 per share, putting it at just 11.3 times earnings. That's a lot better than the current P/E ratio, which is closer to 60. It also gives DH Corp. a payout ratio of approximately 50%, which is about as low as you'll find for a stock with a 4.4% yield.

Conclusion

Magna, Premium Brands, and DH Corp. all have low payout ratios, good businesses with visible competitive advantages, and, perhaps most importantly, very achievable growth plans. That's a nice combination for dividend-growth investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:MG (Magna International Inc.)
3. TSX:PBH (Premium Brands Holdings Corporation)

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