2 Stocks for Excellent, Stable Growth

Description

Earnings growth potentially leads to price appreciation and dividend growth. **Metro, Inc.** (TSX:MRU) and **Stella-Jones Inc.** (TSX:SJ) are solid examples of outstanding, stable growth.

The businesses

Metro operates a network of more than 600 food stores in Quebec and Ontario under multiple banners, such as Metro, Metro Plus, Super C, and Food Basics. The stores are primarily supermarket or discount stores.

Stella-Jones produces and sells pressure-treated wood products and related services in North America. Last year almost 80% of its sales were railway ties and utility poles.

Its main clients are railway companies, electrical utilities, and telecoms, which provide necessary infrastructure for the economy and stable business for Stella-Jones.

Stella-Jones also has been growing its residential lumber business that contributed 27% of its second-quarter sales.

Stable double-digit returns

Both Metro and Stella-Jones has delivered stable, high returns in the last decade.

In the last 10 years, Metro has delivered annualized returns of 14.1%, which greatly outperformed S&P 500's 6.8% annualized returns over the same period.

Most of Metro's price appreciation was due to the company's strong earnings growth. It has compounded its earnings per share at a rate of 12.3% in that period.

Metro's initial dividend yield of 1.3% also added to its total returns. This is especially so since management is supportive of dividend growth and has been growing its dividend every year for the last 21 years. In the last decade Metro has hiked its dividend at a compound annual growth rate (CAGR) of 13.3%.

In the last 10 years Stella-Jones has delivered annualized returns of 29.8%, which greatly outperformed S&P 500's 6.8% annualized returns over the same period.

Most of Stella-Jones's price appreciation was due to the company's strong earnings growth. It has compounded its earnings per share at a rate of 19.1% in that period.

Stella-Jones's initial dividend yield of 1.3% also added to its total returns. This is especially so since management is supportive of dividend growth and has been growing its dividend every year for the last 11 years. In the last decade, Stella-Jones has hiked its dividend at a CAGR of 29%.

Conclusion

In the last decade, Metro's and Stella-Jones's return on equity has been consistently 14% or higher, indicating they're excellent capital allocators. As a result, their businesses have grown at a double-digit rate.

Most importantly, both dividend-growth companies are priced at a reasonable multiple of about 19. Although they're not screaming buys, they are great companies to consider starting a position today and to buy more on dips for long-term growth.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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