2 Overlooked Dividend-Growth Stocks to Consider Today

Description

Investing in dividend-growth stocks is one of the most powerful and time-proven strategies to build wealth. This means that investors should favour stocks with modest yields that have the ability to grow their dividends over time over ones with high yields that have little to no growth potential.

With all of this in mind, let's take a closer look at why **Jean Coutu Group PJC Inc.** (TSX:PJC.A) and **MTY Food Group Inc.** (TSX:MTY) are great picks for dividend-growth today.

Jean Coutu Group PJC Inc.

Jean Coutu is one of Canada's largest franchisors of pharmacies with a network of 420 stores located across Quebec, New Brunswick, and Ontario under the banners of PJC Jean Coutu, PJC Linique, PJC Santé, and PJC Santé Beauté. It also owns Pro Doc Ltd., a Quebec-based subsidiary and manufacturer of generic drugs.

Jean Coutu currently pays a quarterly dividend of $0.12 per share, representing $0.48 per share on an annualized basis, which gives its stock a solid 2.4% yield today.

Although it may not seem completely necessary to confirm the safety of a yield under 3%, I think investors should always do so anyways to be absolutely sure, and you can do this with Jean Coutu by checking its cash flow. In the first half of fiscal 2017, its operating cash flow (OCF) totaled $106.4 million, and its dividend payments totaled just $44.4 million, resulting in a conservative 41.7% payout ratio.

You still may not be sold on Jean Coutu being a great dividend stock, so let's get down to what really matters: dividend growth. It has raised its annual dividend payment for nine consecutive fiscal years, and its 9.1% hike in April has it on pace for fiscal 2017 to mark the 10th consecutive year with an increase.

I think Jean Coutu's very strong OCF growth, including its 44.8% year-over-year increase to $106.4 million in the first half of fiscal 2017, and its significant amount of cash on hand, including $143.1 million as of August 27, could allow its streak of annual dividend increases to continue through fiscal

2025, making it a great investment opportunity for long-term investors today.

MTY Food Group Inc.

MTY is one of North America's largest franchisors of restaurants. As of August 31, it has 5,534 locations under 57 brands in operation, 5,457 of which are franchised and 77 of which are company-owned. It's also worth noting that 46% of its locations are in the United States, 45% are in Canada, and 9% are abroad.

MTY currently pays a quarterly dividend of $0.115 per share, representing $0.46 per share on an annualized basis, giving its stock a yield of about 1% today.

As mentioned before, you should always confirm the safety of a stock's dividend, regardless of how big or small, and you can do this with MTY by checking its cash flow. In the first nine months of fiscal 2016, its OCF totaled $46.97 million, and its dividend payments totaled just $6.86 million, resulting in an extremely conservative 14.6% payout ratio.

MTY's yield is very low, but we must not forget that what really matters is dividend growth, which it has been delivering. It has raised its annual dividend payment each of the last five years, and its 15% hike in January has it on pace for 2016 to mark the sixth consecutive year with an increase.

I think MTY's strong OCF growth, including its 19% year-over-year increase to $46.97 million in the first nine months of fiscal 2016, and its US$310 million acquisition of Kahala Brands, which was completed on July 26, added 18 brands and approximately 2,800 locations to its network, and will amplify its growth going forward, could allow its streak of annual dividend increases to continue for another six years at least, making it one of the best dividend-growth plays in the restaurant industry today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)
2. TSX:TLRY (Aphria)

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