These 3 Dividend-Growth Stocks Are Poised to Crush it in 2017

Description

I talk to a lot of retail investors, especially those in their 40s, 50s, and even 60s. And almost without exception, they’re after one thing–dependable dividend growth.

The logic is simple. Yields from traditional fixed-income alternatives are tepid at best. Equities not only offer better income possibilities today, but the potential for growth in the future. A GIC doesn’t offer any capital appreciation opportunities, either.

The only downfall is the potential for capital loss, but that can be mitigated in a couple of ways. First of all, investors can choose the best stocks they can, preferably ones trading at a reasonable valuation. And they can have a long-term outlook, ignoring short-term price fluctuations.

Here are three dividend-growth stocks that are poised to do well in 2017 … and beyond.

Goeasy

Goeasy Ltd. (TSX:GSY) provides rent-to-own furniture to Canadians with bruised credit. It also offers unsecured loans of up to $15,000 through its Easy Financial subsidiary.

Business has exploded over the last five years. In 2011, the company posted revenue of $188 million and net income of $11 million. Over its last 12 months, those numbers have been $339 million and $30 million, respectively. That’s an impressive performance in an era where true growth stories are few and far between.

Easy Financial loans are expensive, at least for those of us with pristine credit. The interest rate is more than 45% annually. But these loans are reasonably priced versus alternatives, like Payday Loans. Additionally, many provincial governments are passing laws making Payday Loans tougher to get, which will drive customers to Easy Financial and its close to 400 locations.

The company has delivered great dividend growth since 2014, upping the quarterly payment from$0.09 per share to $0.125 today. With a payout ratio of just 23% of trailing earnings, it has plenty ofpotential to keep hiking the dividend.

Empire Company

If you believe oil is going to recover in 2017, there are a couple of ways to play it. You can either go long on risky oil stocks or choose a more stable company with exposure to Alberta's economy.

I'm doing the latter in my portfolio. I know that if I'm wrong about the commodity, I'm still invested in a business that will deliver profits and dividends.

Empire Company Limited (TSX:EMP.A) has really been hurt by the weak economy in Alberta and Saskatchewan, and its 2013 acquisition of Safeway was timed terribly. Additionally, management didn't do a very good job integrating the merger.

But the company is on the right path. It has stepped up marketing and has lowered many of its prices. Its scale is also allowing it to cut various costs and get better deals from food suppliers. And it's also investing in various improvements at the store level.

Investors are getting a company that is cheaper than its peers on almost every traditional valuation metric. Empire also has terrific potential to grow its dividend with a payout ratio of only 30% of trailing normalized earnings.

Intact Financial

Intact Financial Corporation (TSX:IFC) shareholders have been waiting patiently for years now, hoping for interest rates to head higher. And 2017 could be that year.

Intact is Canada's largest property and casualty insurer. It consistently posts a combined ratio under 100%, which means it makes money from underwriting alone. Any gains it gets from its $14.3 billion investment portfolio is gravy.

It has 69% of its portfolio is invested in fixed income, or about $9.9 billion worth. An increase of just 1% in interest rates would increase profits by $100 million, although not all at once, since the portfolio is laddered. Still, $100 million in excess earnings translates into about $0.76 per share in additional earnings, or about a 20% increase versus the last 12 months. Not bad.

Intact pays a 2.5% dividend today, and it has hiked the payout each year since 2009. Look for the annual raises to continue.

The bottom line

It looks like 2017 will be a good year for Goeasy, Empire Company, and Intact Financial. Investors should take the opportunity to load up on these great companies today before the rest of the market figures that out.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

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2. TSX:GSY (goeasy Ltd.)
3. TSX:IFC (Intact Financial Corporation)

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