These 3 Dividend-Growth Superstars Have Massive Potential

Description

Dividend-growth investing has been analyzed and reanalyzed to the point where there's a very predictable formula behind it.

Investors focus their energy on about 50 of North America's biggest and most successful stocks — companies that have decades of consistent dividend raises behind them. There's every expectation that these companies will continue to perform.

But other investors prefer a different strategy. They like to look at mid-cap or even small-cap stocks with plenty of growth potential ahead of them — the kind of stocks that could really explode upwards — even if that means sacrificing a little income today.

Such a plan has the potential to supercharge returns going forward. There's nothing wrong with sticking with large blue chips, but investors who do so are resigning themselves to largely match the market. There just isn't the same kind of upside potential.

Here are three Canadian stocks with tremendous dividend-growth potential going forward.

Goeasy

Goeasy Ltd. (TSX:GSY) is one of Canada's largest alternative finance companies. It has two main operating divisions. The first is financing and selling furniture for folks with crummy credit. The second gives unsecured loans at interest rates of 46% annually.

Those loans seem terrible for those of us with decent credit, but they're actually pretty attractive to a segment of the population who has little other choice. These loans are rapidly replacing payday loans as various provincial governments clamp down on short-term borrowing.

Goeasy's long-term growth has been outstanding. In 2006 it earned just under $9 million on $120 million of revenue. Over the last 12 months, it generated $339 million in sales and $30 million in profits. Annual dividends have grown from $0.24 per share to $0.47 per share in the same period.

With a payout ratio of under 25% and earnings expectations of $3.26 per share for fiscal 2017, it looks like Goeasy is just getting started.

Gildan Activeware

Gildan Activeware Inc. (TSX:GIL)(NYSE:GIL) manufactures and distributes clothing — things like T-shirts, underwear, socks, sweat pants, hosiery, and shapewear. It manufacturers socks for **Under Armor** in the United States and owns notable brands like Anvil, Silks, and Secret.

Like Goeasy, Gildan has grown like a weed over the last decade. In 2006, it did US$774 million in total revenue. In fiscal 2016, that number will be close to US$2.5 billion. Earnings also jumped during that period, increasing from US$107 million to US$237 million. Impressively, Gildan grew that much without increasing its share count.

Analysts project earnings will continue to climb in 2017, hitting $2.38 per share. That puts the company's shares at just 14.4 times forward earnings — a very reasonable valuation.

The current quarterly dividend is just $0.11 per share, giving Gildan a payout ratio of just 18.5% of forward earnings. Look for the dividend to grow at least 10% per year for the foreseeable future.

Saputo

Saputo Inc. (TSX:SAP) isn't exactly an organic growth story like the first two choices. It is dependent on acquisitions for growth.

The milk, cheese, and yogurt maker has certainly been able to make huge acquisitions in the past, signing off on numerous deals in the last 15 years. First it solidified its position in Canada. Then it moved onto the United States. These days, it also has operations in Europe, Argentina, and Australia.

The company would love to expand into China, which is the real prize. It gained a toehold into the world's most populous nation with its Australian acquisition, which supplies evaporated milk to China. Even if China isn't an achievable goal, there are still dozens of potential acquisition targets in places like the United States, Europe, or South America.

Saputo pays a $0.15-per-share quarterly dividend, which gives it a payout ratio of just 35%. Look for the dividend to continue increasing, which should help to make up for the paltry 1.3% current yield.

The bottom line

Retirees should be worried about a stock's current yield rather than its growth rate. They need income today. Somebody with a couple of decades until retirement should focus more on companies that can really grow. Goeasy, Gildan Activeware, and Saputo all have the potential to really supercharge returns.

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