

These 3 Dividend-Growth Stocks Have Ridiculous Potential

Description

Too often, I see young dividend-growth investors focus too much on the dividend and not enough on the growth.

There's nothing wrong with wanting to get paid while you wait. These kinds of investments can even work out pretty well over time, and they tend to trade at pretty reasonable valuations.

But there's definitely logic to putting some growth stocks in your portfolio, even if they're trading at a much higher valuation. A mature dividend payer has almost zero potential to make a real difference. The right growth stock can turn a regular retirement into a luxurious one.

Such companies are hard to find, of course. If it were easy, we'd all be doing it. And even the best-laid growth plans can easily fizzle. But it certainly is possible to find such companies.

Here are three Canadian stocks with great potential.

Magna International

The auto industry is about to be revolutionized, and **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) is poised to do very well when such a time comes.

It isn't enough to make engines or seats or rear-view mirrors anymore. All of these devices need to have technology built in that enhances the driving experience. And as cars move towards becoming more and more autonomous, technology will be more important than ever.

The perfect example is **Apple's** plan to build its own self-driving car. Apple wants nothing to do with building a car. It is much more interested in developing software. It's more than happy to hand off the hardware part to a company like Magna. In fact, rumours around the project suggest Magna has already been chosen to manufacture the Apple car — whenever it comes out.

Investors are also getting a company trading at less than nine times earnings — thanks to the cyclical nature of the business — as well as one paying out just 20% of earnings as dividends. Look for the dividend to grow at least 10% per year for the foreseeable future.

Boyd Group

One of the best long-term growth opportunities that exists today is the consolidation of the auto dealership industry, which is incredibly fragmented.

This is changing. Several companies are rushing to buy as many dealerships as they can, hoping to cash in on this trend. **Boyd Group Income Fund** (TSX:BYD.UN) is doing the same thing, except with collision repair shops. It owns nearly 400 shops across North America with approximately 85% of locations in the United States.

Growth has been simply outstanding. Revenue has increased from \$434 million in 2012 to \$1.33 billion in the last 12 months. Earnings haven't really caught up, but the company does have healthy free cash flow.

Shares only yield 0.6% today, but, with any luck, the dividend will skyrocket along with increasing earnings.

Hardwoods Distribution

Hardwoods Distribution Inc. (TSX:HWD) is a little-known Canadian company with two major growth avenues ahead of it.

Hardwoods is a major distributor of all sorts of building supplies from hardwood floors to interior and exterior doors. Business is booming because U.S. housing starts are picking up and consumers are finally confident enough to start spending again on home renovations.

The company is also in the position to consolidate a fragmented market. It has acquired four different competitors since 2011. Its most recent acquisition, Rugby, cost US\$107 million and will increase sales by approximately 40%. Rugby itself has made 17 acquisitions since 2009.

Investors aren't paying a huge price tag for this growth potential either. The company earned \$1.21 per share over the last 12 months, putting it at just 14 times earnings. Analysts expect the bottom line to grow to \$1.56 per share in 2017.

It has a dividend yield of 1.5% with a payout ratio of just 20.6%. Look for huge dividend (and earnings) growth as the company starts to mature.

The bottom line

It isn't enough to just buy stocks with a history of strong dividend growth. Investors must find the next generation of dividend-growth superstars by peering into their crystal ball and doing their best to predict the future.

It's hardly a surefire formula, but with a little luck, investors can get in on the ground floor of some truly legendary growth stories — and collect a nice dividend to boot.

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