Will These 3 Stocks Start Paying Dividends in 2017?

Description

Although there are certainly exceptions to every rule, the trend is obvious. Stocks that pay dividends will make investors richer than ones that don't.

According to a study from RBC Capital Markets, the difference in returns has been huge. From 1986 to 2013, $1 invested in non-dividend-paying Canadian stocks would still be worth $1. Yes, non-dividend payers actually returned 0.0% a year for 26 years.

But $1 invested in the TSX Composite Index would be worth $5.48. And $1 invested in dividend-paying stocks would be worth $14.11.

Needless to say, it's easy to recommend a portfolio filled with dividend payers.

Some investors prefer a different route. Many stocks that begin to pay dividends get a nice short-term boost as a different class of investors start getting interested in the stock. Remember, there are hundreds of fund managers and thousands of investors that refuse to invest in stocks that don't pay a dividend.

The only problem? To really take advantage of this phenomenon, an astute investor has to guess when a company will start paying a dividend. You've got to get in early to get the full impact.

Here are three Canadian stocks that could start paying dividends in 2017.

Great Canadian Gaming

I have no idea why **Great Canadian Gaming Corp.'s** (TSX:GC) management doesn't start paying a dividend.

The company is solidly profitable, earning $1.22 per share in the last four quarters. Analysts are even more bullish for 2017, projecting earnings will increase to $1.50 per share as it opens its newest location in Belleville. The company has 20 locations altogether in British Columbia, Ontario, Nova Scotia, New Brunswick, and Washington State.

Great Canadian Gaming has a solid balance sheet with nearly $200 million in cash and a debt-to-assets ratio of under 25%, which is quite low for a company with the majority of its assets in real estate. Balance sheets don't get much finer than that.

At least management is giving back to shareholders in the form of aggressive share buybacks. At the end of the third quarter in 2015, Great Canadian Gaming had 67.8 million shares outstanding. That number decreased to 61.5 million at the end of its most recent quarter.

The company is solid. The obvious next step is for management to reward shareholders with a regular dividend.

Husky

Husky Energy Inc. (TSX:HSE) is a little different than Great Canadian Gaming. The company was a dividend stalwart for years until it eliminated its payout during the recent downturn in the energy sector.

The company has done a nice job turning things around. Total indebtedness has fallen from $7.2 billion to $5.8 billion with an additional $1.4 billion worth of cash on the balance sheet. Its costs to extract a barrel of oil have fallen significantly as well, putting it in a position to deliver a decent amount of cash flow, even if crude doesn't continue its recovery in 2017.

Look for Husky to begin paying a dividend again in the latter half of the year.

CGI Group

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) has quietly become one of Canada's tech giants. It's a consulting, systems integration, outsourcing, and solutions company with annual revenue exceeding $10 billion. It is also comfortably profitable, earning $3.42 per share over the last year. That puts shares at 18.1 times trailing earnings.

The company has matured, and its balance sheet is rock solid. The obvious next step is to pay a dividend. If it paid investors $1 per share, that would be a 1.6% yield with a payout ratio of less than 30%. CGI Group could easily afford such a payout, and paying a dividend would likely give it more exposure.

The bottom line

Although there's nothing that guarantees Great Canadian Gaming, Husky, or CGI Group will start paying a dividend in 2017, a little sleuthing tells us that each company could easily do so. If you're looking to get in on the bottom floor and profit from the dividend effect, these three stocks are a great place to start.

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nelsonpsmith