2 Value Stocks With Growing Dividends

Description

As the stock market is near an all-time high, it can be difficult to find value. If we turn to the auto parts industry of the consumer cyclical sector, there are **Magna International Inc.** (TSX:MG)(NYSE:MGA) and **Exco Technologies Limited** (TSX:XTC), which trade at cheap valuations.

Yet both companies remain profitable and have the capability to grow. Importantly, they also have the culture and capacity to grow their dividends.

Magna International

Magna is the most diversified global automotive supplier. It is the largest automotive supplier in North America and the fourth-largest in the world.

Its operations are placed in strategic locations to support its clients around the world. As of the end of 2016, it had 317 manufacturing operations and 102 product development, engineering and sales centres in 29 countries on four continents.

At $58 per share, Magna trades at least 10% below its 2015 high. Last year, the company increased its earnings per share by 16%, but it trades at a price-to-earnings ratio of only 8.3.

The analyst consensus (across 15 analysts) estimates Magna can grow its earnings per share at a compound annual growth rate (CAGR) of 10.7-11.3% for the next three to five years.

magna Image not found or type unknown

Magna has a long-term normal multiple of 10.4. Combining the possibilities of multiple expansions and growing earnings, buying Magna today could lead to annualized returns of at least 12%.

Magna shareholders can also expect to enjoy a growing dividend. The company has hiked its dividend for seven consecutive years. It has increased its dividend at a CAGR of 10% in the last decade.

The company just hiked its dividend by 10% in the first quarter. Its payout ratio is estimated to be about

21% of its 2016 earnings, which supports a safe dividend with room to grow.

Exco Technologies

If you’re looking for growth, Exco is a smaller peer that has also come under pressure. It designs, develops, and manufactures dies, moulds, components and assemblies, and consumable equipment for the die-cast, extrusion, and automotive industries.

At about $11.80 per share, Exco trades at more than 25% below its 2015 high. Last fiscal year, the company increased its earnings per share by 16%, but it trades only at a price-to-earnings ratio of 11.2.

The analyst consensus across three analysts estimates Exco can grow its earnings per share at a CAGR of 18.5% for the next three to five years.

Exco has a long-term normal multiple of 13.1. Combining the possibilities of multiple expansions and growing earnings, buying Exco today could lead to annualized returns of at least 16%.

Exco shareholders can also expect to enjoy a rising income from its dividend. The company has hiked its dividend for 11 consecutive years. It has increased its dividend at a CAGR of 20% in the last decade.

The company just hiked its dividend by 14% in the first quarter. Its payout ratio is estimated to be about 29% of its fiscal 2016 earnings, which supports a safe dividend.

Investor takeaway

Since 2012, Magna has generated returns on equity of at least 16%, while Exco’s have been at least 15%. So, their managements have been good capital allocators and have generated returns for shareholders.

Some of these returns have come in the form of growing dividends. At the recent share prices, Magna offers a yield of 2.5%, while Exco offers a yield of 2.7%.

If the companies continue to grow their earnings and multiple expansions occur over time, investors can see higher returns in these value stocks three to five years out. Specifically, Magna could return annualized returns north of 12%, while Exco’s could hit 16%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)
3. TSX:XTC (Exco Technologies Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created
2017/03/02
Author
kayng