



Revealed: Check Out These 3 Overlooked Dividend Studs

Description

As the cliché goes, if it ain't broke, don't fix it.

Many investors apply this mindset to their dividend stocks. They focus on a small number of Canadian companies that have grown to become true powerhouses, while ignoring the rest of the market.

This is a misguided strategy. Small- and medium-cap stocks not only offer greater growth potential, they also boast better returns over time as investors discover them. Study after study has proven the small-cap return premium to be true.

The time to get into these stocks is now. Here are three smaller, undiscovered stocks to get you started:

CanWel Building Materials Group Ltd

CanWel Building Materials Group Ltd (TSX:CWX) is a wholesale distributor of building materials and home renovation products. Products include treated lumber, insulation, and interior finishing materials, among others.

Canada's real estate market is doing exceptionally well, and CanWel has been a major beneficiary. Combine that with two strategic acquisitions in 2016, and the company grew its top line by nearly 20% last year. The company also retired some \$44 million worth of convertible debentures during 2016.

Perhaps the most attractive part of an investment in CanWel is the company's dividend. The payout is currently 14 cents per quarter, good enough for a 9.4% yield. The dividend is sustainable as well; the company earned 97 cents per share in 2016 while paying out just 56 cents.

In addition, shares trade at just 11.4 times projected 2017 earnings and at just 0.3 times sales, which are both attractive valuations.

KP Tissue Inc.

KP Tissue Inc. (TSX:KP) is a holding company that has 16.1% interest in Kruger Products L.P. Kruger is the owner of many of Canada's leading toilet paper and paper towel brands, including Scotties, Purex, Cashmere, and Sponge Towels. The company is also a major player in the commercial market, as well as owning a plant in the United States. Approximately 40% of revenue comes from outside of Canada.

There's a lot of talk about the internet disrupting almost every industry, but I'm pretty sure toilet paper isn't going anywhere.

Kruger has the number one market share in the Canadian toilet paper, facial tissue, and away from home markets, with share of 36.8%, 31.5%, and 30%, respectively.

After a weak 2015, the company's results have recovered nicely, which is good news for the generous 4.5% dividend. Overall, KP Tissue's share of total free cash flow totaled approximately \$10 million in 2016, while paying out only \$4.9 million in dividends. The payout is safe.

Pembina Pipeline Corp

Pembina Pipeline Corp ([TSX:PPL](#)) doesn't get nearly as much attention as its peers, despite comparable long-term returns.

The company has an impressive array of assets. It owns more than 10,000 km of conventional oil pipelines; 1,650 km of heavy oil pipelines; more than 1,700 MMcf/d in total natural gas processing capacity; and a midstream business that includes 14 crude oil truck terminals and 15 million barrels of oil storage capacity.

Pembina has one of the finest balance sheets in the sector. Most of its peers have a debt-to-assets ratio of approximately 50%. Pembina's debt-to-assets ratio is closer to 25%. This is good news for the company's long-term growth, which includes \$4 billion in short-to-medium term projects.

In 2016, Pembina posted adjusted cash flow from operations of \$2.54 per share, a slight improvement versus 2015's numbers. It paid investors \$1.90 per share in dividends, giving the stock a payout ratio of 75%. The payout is safe enough the company has already announced a dividend increase for 2017, which marks the 6th consecutive year of dividend increases. Shares currently yield 4.6%.

The bottom line

Pembina, KP Tissue, and CanWel don't garner much attention, but you should start paying attention to each. They're each great companies with sustainable competitive advantages, poised to deliver solid portfolio returns for decades to come. Oh, and they pay some of the best dividends out there. What's not to like?

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