1 High-Yield Canadian Dividend Stock With Major Long-Term Tailwinds

Description

High-quality dividend stocks are worth their weight in gold. Many income investors claim to not care about stock price appreciation, since many high-yielding stocks are low growth and return most of the capital back to shareholders. I believe it's possible to get a fat dividend that's set to enjoy consistent increases of a large magnitude and a fair amount of capital appreciation over the long term. But you've got to know where to look, and you've got to have the patience to stick with your investment for many years.

Personally, I love dividends, but I don't go looking for stocks based on how much they yield. Instead, I look for stocks of businesses which I believe have long-term tailwinds that may support big dividend increases many years down the road. Such catalysts may not be fully realized by the general public, so there's opportunity for investors to get a huge amount of capital appreciation to go with a high yield which will grow by leaps and bounds over the years.

What kind of tailwinds could exist in a high-income universe?

Sure, high-yielding stocks normally fall under the category of boring, low-growth stalwarts in industries like telecoms, utilities, and real estate, but that doesn't mean businesses in these industries are struggling to grow. These are usually rare finds, but there are companies that may be positioning themselves to make major moves to steal market share away from the market leaders.

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR) is a long-time market darling that has been a solid choice for dividends for many years now. The management team is extremely shareholder friendly and consistently raises the dividend. Investors may be overlooking this great business because of the hype surrounding the Big Three telecoms.

The Big Three telecoms are the largest and most popular choice for income investors looking for stability, but that doesn't mean you should flock to these stocks because of their size and popularity among the general public.

Freedom Mobile is going to shake up the Canadian telecom scene

The Canadian telecom scene is going to face a real disruptor over the next few years, and I believe the Big Three are going to become the Big Four as Shaw's wireless segment Freedom Mobile sees its subscriber growth pick up momentum. As Freedom Mobile surges, the Big Three incumbents will inevitably feel the pressure.

Shaw has been investing in improving its wireless infrastructure. Going forward, the performance gap between Freedom Mobile and the Big Three telecoms will shrink, and we could potentially see a flood of subscribers move to Freedom Mobile because its network is much more affordable and pretty much as reliable.

Huge value for long-term income investors given the tailwinds

Shaw currently offers a ~4% yield at an attractive 2.6 price-to-book multiple, which is in line with the company's five-year historical average. Shaw is going to be a major disruptor in the telecom scene over the next few years, and I do not believe this long-term tailwind is reflected in the stock price at current levels.

Shaw looks fairly valued right now, but it deserves a premium because Freedom Mobile is likely to be very successful in the coming years. Long-term investors who buy the stock now will likely enjoy huge capital gains and a fast-growing, stable dividend, which is more than you'd get with your typical low-growth, high-yield stock.

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Date
2025/09/08
Date Created
2017/06/22
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