2 Dividend-Growth Stocks Trading at Bargain Valuations

Description

As a fundamental investor, I'm always on the lookout for high-quality companies whose stocks are trading at discounted levels and have great dividends and, after a recent search of several industries, I came across two very attractive options. Let's take a closer look at each, so you can determine if you should add one of them to your portfolio.

Industrial Alliance Insurance and Financial Services Inc.

Industrial Alliance Insur. & Fin. Ser. (TSX:IAG) is one of Canada's largest providers of financial products and services, such as life, health, auto, home, and creditor insurance, mortgages and car loans, savings and retirement plans, mutual and segregated funds, securities, and extended warranties.

At today's levels, Industrial Alliance's stock trades at just 11.9 times fiscal 2017's estimated earnings per share (EPS) of $4.81 and only 10.9 times fiscal 2018's estimated EPS of $5.26, both of which are inexpensive compared with its five-year average price-to-earnings (P/E) multiple of 12.7.

On top of trading at attractive valuations, Industrial Alliance has a great dividend. It pays a quarterly dividend of $0.35 per share, representing $1.40 per share annually, which gives it a 2.4% yield today.

A 2.4% yield may make you question how its dividend can be considered "great," so you must also make the following two notes.

First, Industrial Alliance has raised its annual dividend payment for three consecutive years, and its 9.4% increase in February has it on track for 2017 to mark the fourth consecutive year with an increase.

Second, the company has a target dividend-payout range of 25-35% of its net income attributable to common shareholders, so I think its impressive growth, including its 47.4% year-over-year increase to $537.2 million in fiscal 2016 and its 12.2% year-over-year increase to $110.3 million in the first quarter of fiscal 2017, will allow it to continue to grow its dividend for the foreseeable future.

High Liner Foods Inc.

High Liner Foods Inc. (TSX:HLF) is one of largest processors and distributors of value-added frozen seafood in North America. Its family of brands includes High Liner, Fisher Boy, Sea Cuisine, C. Wirthy, Icelandic Seafood, and FPI.

At today's levels, High Liner's stock trades at just 14.4 times fiscal 2017's estimated EPS of $1.22 and only 11.5 times fiscal 2018's estimated EPS of $1.52, both of which are incredibly inexpensive compared with its five-year average P/E multiple of 44.8.

In addition to being wildly undervalued compared with its five-year averages, High Liner is an excellent dividend stock. It pays a quarterly dividend of $0.14 per share, representing $0.56 per share annually, giving its stock a generous 3.2% yield today.

It's also important to make the following two notes about High Liner's dividend.

First, the company has raised its annual dividend payment for nine consecutive years, and its 7.7% increase in November has it on track for 2017 to mark the 10th consecutive year with an increase.

Second, I think High Liner's very strong generation of standardized free cash flow (FCF), including US$63.28 million in fiscal 2016 and US$16.78 million in the first quarter of fiscal 2017, and its very conservative dividend-payout ratio, including 19.2% of its standardized FCF in fiscal 2016 and 19.1% of its standardized FCF in the first quarter of fiscal 2017, will allow its streak of annual dividend increases to easily continue into the 2020s.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)
2. TSX:IAG (iA Financial Corporation Inc.)

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