

Investors Will Love These 2 Small-Cap Dividend Stocks

Description

What do you do when you have two small-cap dividend stocks with almost the identical market cap? You buy both of them. Here's why.

Leon's Furniture ([TSX:LNF](#)) and **North West Company** ([TSX:NWC](#)) are two dividend stocks currently yielding 3.1% and 4.4%, respectively. Both are small-cap stocks, have a market cap of approximately \$1.4 billion, and operate profitable retail businesses.

It's no secret to many investors that dividend stocks deliver better returns over the long haul than non-dividend-paying stocks.

According to the *Globe and Mail's* Norm Rothery, if you'd bought an equal amount of all the dividend stocks in the TSX composite 16 years ago and re-balanced them every year, you'd have generated 10.2% compound annual growth compared to 7.5% over the same period if you'd bought the entire TSX composite index.

A 270-basis-point difference on a \$10,000 investment over 16 years translates to an additional \$15,500 return, all because of the dividend.

But not just any dividend

Many investment gurus suggest you avoid high-yielding stocks because they're often a sign of a weakening business, ultimately leading to a cut in or elimination of the quarterly or monthly dividend.

It makes sense. The stock price goes down and the yield goes up. So, how high is too high?

Well, according to Rothery, if you took all of the stocks yielding between 3% and 6.4% and equal-weighted them over the past 16 years, you'd have generated an average annual return of 11.2% — 370 basis points better than the entire TSX.

Interestingly, although stocks with reasonably high dividend yields outperformed, the highest-yielding stocks delivered just a 4.1% annual total return, lending credence to the experts' opinion that you don't want to go too high when it comes to dividend yields.

Leon's Furniture and North West Company just happen to be members of TSX cohort between 3% and 6.4%, making them very attractive dividend stocks.

What about the actual businesses?

I'm not suggesting that you buy both stocks sight unseen.

You've always got to do your due diligence no matter the investment, public or private, but if you look at the long-term returns of both stocks — Leon's and North West have 10-year annualized total returns

of 9.1% and 9.4% versus 4.8% for the TSX — it's clear they've been winners for shareholders.

How's the future looking?

Well, you're not going to see tremendous revenue growth from either company. However, if you're looking for two small-cap dividend stocks that aren't going to keep you up all night worrying, Leon's and North West are excellent bets.

North West's first-quarter results saw it increase operating earnings by [53%](#) despite a 4% decrease in revenues. However, excluding one-time costs, adjusted earnings actually decreased by 12% in the quarter due to store closures in the Caribbean from hurricane damage.

North West does a good job controlling expenses, so the decrease in the quarterly profit shouldn't be too concerning to potential investors. More importantly, it's increased its annual dividend for six years straight from \$0.96 a share to \$1.28 a share — a 33% increase over this period.

As for Leon's, it's done a good job of late getting customers in the door while also keeping a lid on costs, which has led to [increases](#) on both the top and bottom line in its most recent quarter.

Leon's sells a lot of appliances in addition to furniture. With the exit of Sears Canada from the appliance market, it should continue to benefit from new business in this area.

Sustainable dividends are the key

The most important thing to remember here is that both companies don't have a problem sustaining their dividends, and you can't grow your quarterly dividend if you can't pay it.

They're boring but reliable.

CATEGORY

1. Investing

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1. Editor's Choice

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1. TSX:LNF (Leon's Furniture Limited)
2. TSX:NWC (The North West Company Inc.)

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Date

2025/08/17

Date Created

2018/08/30

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