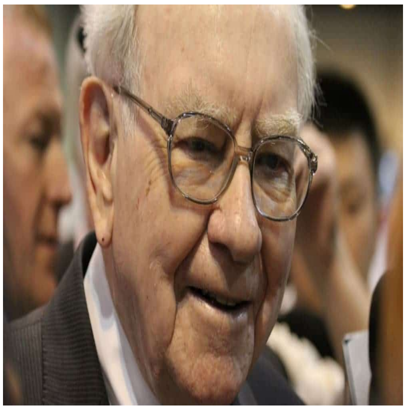

Value Alert: 2 Dividend-Growth Stocks Warren Buffett Might Be Interested in

Description

I've always wondered what Warren Buffett would have invested in had he been born, raised, and had **Berkshire Hathaway** domiciled in Canada. While he'd still probably invest a big chunk of his money south of the border, I'd bet that he'd be more than willing to put a majority of his cash in quality Canadian companies that have the traits he desires most.

Wonderful businesses at fair prices are what Buffett likes best. The easier the business is to understand, the better; strong earnings growth is a must; and a wide moat is an essential component if a firm is to sustain its durable competitive advantage. There is no shortage of companies like this on the TSX index. And although you've got to do some digging through the energy and materials names to get to the gems, I think there's a tremendous value proposition for investors like Buffett on this side of the border.

As the Canadian dollar continues to tumble, we may see Buffett look to Canada for investment options. Here are three that I think would be on his watchlist.

Gildan Activewear (TSX:GIL)(NYSE:GIL)

Fruit of the Loom is one of Buffett's favourite Berkshire-held businesses. The company specializes in bare essential articles of clothing. A Canadian counterpart of the firm would likely be Gildan, a manufacturer of blank activewear like t-shirts, underwear, fleeces, socks, and the like.

Sure, basic articles of clothing aren't as "moaty" as top-branded merchandise (anybody can sell blank tees, after all!). What sets Gildan apart from the competition is its ability to drive down costs like it's nobody else's business. The firm is a smooth operator, and as the firm pursues various growth initiatives, I see meaningful growth in operating cash flow alongside a solid foundation that could better allow Gildan to weather the next economic downturn.

Gildan isn't just technically sound at the time of writing (shares are breaking out in a big way), but it's also fundamentally sound. The stock has a conservative 1.42% dividend yield, which, while small on the surface, actually has room to run over the next few years.

Leon's Furniture (TSX:LNF)

If you have a look at Berkshire's book of investments, you'll see that Buffett has a liking for furniture companies. Given Buffett's expertise in the area, Leon's Furniture may be a nice complementary addition to his portfolio given today's severely depressed valuations.

The stock recently fell off a cliff and now trades at 11.6 times trailing earnings, 1.4 times book, and 0.6 times sales. That's pretty darn cheap and when you consider the bountiful 3.52% dividend yield (with a fairly conservative payout ratio), the healthy free cash flow stream, and the relatively healthy balance sheet, I'd say the company is a prime target for a scoop-up if ever Berkshire was looking for a relatively low-risk Canadian holding.

Fellow Fool Brian Pacampara named Leon's as one of his "super-value" stocks, touting the wider margin of safety, stable state of the industry, and "general outperformance" over prolonged periods of time as his primary reasons for recommending the stock. I think Pacampara is right on the money. The stock is dirt cheap, and if Buffett doesn't take notice of the opportunity to pay a nickel to get a dime, Canadian Fools most definitely should!

Stay hungry. Stay Foolish.

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1. NYSE:GIL (Gildan Activewear Inc.)
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3. TSX:LNF (Leon's Furniture Limited)

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joefrenette