3 Unknown but Profitable Dividend Stocks

Description

Dividend stocks can diversify your portfolio, reduce downside potential and provide you with consistent income to meet daily expenses or redirect into additional savings.

Unfortunately, most of the best dividend stocks have already been discovered, which reduces their value to your portfolio.

If you're looking for top-ranked dividend stocks that fly under the radar, check out these three picks.

Forgotten pipelines

Keyera (TSX:KEY) is one of the largest midstream energy companies in Canada.

Because it's independent and not associated with an upstream or downstream partner, most investors aren't aware of the company. You can use this ignorance to your advantage.

Focusing mostly on natural gas and oil sands output, the company helps energy firms extract, process, ship, and market their volumes. Around 70% of the business is fee-based, meaning that it's not reliant on prevailing commodity prices.

Over the last five years, fee-for-service revenues have doubled, showing Keyera is focused on reducing its exposure to volatile energy markets.

In combination, Keyera's businesses allow it to pay a 5.4% dividend with a payout ratio of just 62%. Because most of the business is tied to fee-for-service contracts, you can rely on this payout even during a difficult bear market.

Since 2003, dividends have grown by 8% annually. This year, the company anticipates investing roughly $800 million in new growth projects, so anticipate further increases in 2020 and beyond.

Bet on a turnaround

As a low-cost, independent oil and gas producer, **Enerplus** (TSX:ERF)(NYSE:ERF) used to be a dividend superstar. In 2014, the monthly payout was as high as US$0.08 per share, resulting in a yield of 5% to 10%.

Ultimately, this proved to be unsustainable. In March of 2016, the company reduced the monthly payout to US$0.01 per share, which is good for a current yield of just 1.3%.

If you have some patience, this looks like a great turnaround play. Based on current prices, you could be getting a yield-on-cost of 20% or more by 2021.

After the dividend was cut, Enerplus' business stabilized quickly. Today, the business (including growth projects) is funded at US$50 per barrel oil. Net debt is just $400 million versus a market cap of $2.2 billion.

Most important, however, the business remains free cash flow positive. Last year, the company generated $160 million in free cash flow, pushing its three-year total generation above $300 million.

Instead of paying out high dividends, the company decided to bet on itself, ramping a share repurchase program meant to capitalize on its sluggish share price. Over the last 18 months, the company has bought back $150 million of shares.

"Enerplus sees compelling value in its stock," its latest investor presentation says. Management expects to allocate a "meaningful percentage" of free cash flow to fund additional buybacks.

If these funds were used for dividends, the payout would be nearly 5%. Using the capital for discounted share repurchases, however, is likely the best strategy for boosting shareholder wealth. Once the stock price rebounds, expect dividends to be reinstated at a rapid pace.

Catch the tide

With a $750 million market cap, **Extendicare Inc.** (TSX:EXE) is the smallest company on this list. At 5.8%, it also has the highest payout.

As one of Canada's largest owners of long-term care and retirement residences, the company is perfectly positioned to capitalize from the tide of elderly citizens that grows every year.

"There's a glut of Canadian baby boomers slowly aging, and the majority of these folks will need some sort of long-term care in the latter years of their lives," said Fool contributor Nelson Smith. He notes that there should be plenty of long-term opportunities to expand Extendicare's network of facilities.

Today, the dividend payout ratio is below 75%, providing plenty of cushion. With a recession-resistant business model that will see demand mount for decades to come, this looks like a solid high-yield stock that the market forgot.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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2. TSX:ERF (Enerplus)
3. TSX:EXE (Extendicare Inc.)
4. TSX:KEY (Keyera Corp.)

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Date
2025/06/29
Date Created
2019/06/18
Author
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