Don’t Miss These Rising Dividend Stocks

Description

Dividend stocks are a great way to generate passive income, but the best way to use this strategy isn’t by investing in *today’s* top dividend stocks. Instead, the greatest rewards are had when you invest in *tomorrow’s* top dividend stocks. This means buying dividends that are underappreciated, either due to the company’s size, industry, or stage of growth.

If you want to buy tomorrow’s top income stocks before the market bids up the price, the following three picks are for you.

Hidden dividends

Boyd Group Income Fund (TSX:BYD.UN) is a growth company. Since 2006, shares have returned nearly 13,000%. The **S&P/TSX Composite Index**, meanwhile, increased by just 40%. This massive growth is impressive, but also masks the company’s cash flow generation and potential to evolve into a dividend-paying machine.

Boyd is now the largest collision repair operator in North America, though the market remains incredibly fragmented. Over the last two decades, the company has slowly purchased mom-and-pop collision centres. It then refurbishes them, cuts out unnecessary expenses, and turns them into cash flow machines.

This has been an incredibly profitable strategy, making the best use of capital to fuel additional growth, *not* pay a big dividend. But times are slowly changing.

Recently, Boyd instituted a small dividend that now yields 0.3%. Over the next decade, I wouldn’t be surprised to see the payout increase *tremendously*.

Last quarter, cash flow from operations totaled $74.6 million. That's an annual run-rate of around $300 million. The business would be incredibly capital light if it weren't for acquisitions. If Boyd paid out the majority of its cash flow today, the yield would easily be over 5% and potentially as high as 10%. Boyd Income Group has all the makings of the next big dividend stock.

Lost in the shuffle

Chemtrade Logistics Income Fund (TSX:CHE.UN) is already a big dividend payer. The current yield is around 11%. The issue isn't sustainability either. Chemtrade has been paying the same dividend for more than 15 years.

On the latest conference call, CEO Mark Davis reiterated that it's in no danger of being cut. "As we have said for a number of times … we don't see any problem with sustaining our dividend and we plan to actually keep paying it," he stressed.

The issue is actually the company's size. With a $1 billion market cap, Chemtrade is far off the radar of most investment funds. That's given it a structural discount simply because of its limited market cap. If you don't mind investing in small-cap stocks, this is the quickest way to get a double-digit dividend with a long history of resiliency.

Bear market protection

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a bit of an outlier. Its 3.8% dividend is respectable but is a clear laggard within its industry. **Laurentian Bank of Canada** has a payout of 5.6%, while **Bank of Nova Scotia** pays a 4.7% dividend. This has caused the market to under-rate TD Bank's payout.

While Canadian banks are usually regarded as stable and predictable, Steve Eisman, one of the most successful short-sellers in a generation, believes the sector could be in for a surprising amount of pain.

"Canada has not had a credit cycle in a few decades," he told *Bloomberg*. "I think they're unprepared for how much their capital ratios could go down if there's just a simple normalization of credit, not a calamity, just a simple normalization of credit."

If the credit cycle normalizes, once-reliable high dividends may be in peril. Laurentian Bank has a payout ratio of 70%, while Scotiabank's payout ratio is closer to 50%. That's not terribly high, but due to the leveraged nature of banks, these dividends aren't as safe as you'd think.

Based on forward earnings, TD Bank has a payout ratio of just 31%! If a bear market hits, stockholders will be glad they stuck with this conservative bank.

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2. TSX:CHE.UN (Chemtrade Logistics Income Fund)
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