3 Low-Yield Dividend Stocks Could be Superior to High-Yield Stocks

Description

When it comes to dividend stocks, the yield is king. Even though it's not the right notion, it's still one of the most practiced ones. Many investors are attracted to high-yielding stocks, even if such stocks are standing on some shaky statistics and a relatively weak balance sheet. A more prudent approach calls for considering stable companies with dependable dividend payout histories, that is, the dividend aristocrats.

Many investors tend to stay away from very high yielding stocks because they might be hiding a bit of risk. Similarly, many dividend-focused investors leave the low-yielding stocks, focusing instead on the sweet spot in between the two.

That might well be a mistake, however: investors should also consider three other elements when selecting or dismissing a dividend stock based on yield. The three elements are dividend history, dividend growth, and capital growth potential.

A software company

Open Text (TSX:OTEX)(NASDAQ:OTEX) is a software company that primarily deals in Enterprise Information Management software. The company has earned itself a place among dividend aristocrats by increasing its payouts for seven consecutive years.

While the current yield is low at 1.48%, the company has shown a remarkable dividend growth rate in the past five years.

From a $0.39 dividend per share in 2015, the company has more than doubled its payouts, and it's currently offering a dividend of $0.92 per share (per annum) — a 135% increase in dividends in five years.

Even a hundred percent increase in the next five years would mean that if you earn $296 a year from your $20,000 investment now, you will be earning about $600 a year in just five years.

In terms of capital growth, if the company continues with its past five-year CAGR of 11.29%, your capital would increase to about $34,000 in the next five years.

Catching the right train

Canadian National Railway (TSX:CNR) operates both in Canada and the U.S. It's a transportation and logistics company that delivers about a quarter of a trillion's worth of goods every year.

This stable business model has seen a good, steady growth of the company; the market value of the company has increased by 48% in the past five years. Currently, the company is trading at $124 a share at writing.

While the company's yield of 1.74% is nothing to flaunt, it's the result of 84% dividend growth in the past five years, so your current dividend payment will take about six years to double.

As well, you can count on the company's dividend growth because it's been recording that growth that for 24 consecutive years. In terms of market value growth, the company has a five-year CAGR of 8.16%.

An equipment and refrigeration system company

Toromont Industries (TSX:TIH) is a $5.81 billion company with two major businesses: heavy industrial equipment and compression equipment. The company has increased its dividend payouts for seven consecutive years and its five-year dividend growth is 58.8%.

The current yield is a minimal 1.52%. What it lacks in dividend yield, however, it more than makes up for in market value growth.

The company has grown its market value by over 150% in the past five years, which translates to a juicy CAGR of 20.8 over the five years. That's remarkable growth; if it continues this way, the company might double your $20,000 capital in four years.

Foolish takeaway

A low yield shouldn't steer you away from a great company. If the company is growing its dividends continuously and quickly, your dividend payouts will catch up to your high-yielding stocks in a few years.

If there is a decent capital growth involved, then a low-yield stock can be very lucrative indeed.

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2. TSX:CNR (Canadian National Railway Company)
3. TSX:OTEX (Open Text Corporation)
4. TSX:TIH (Toromont Industries Ltd.)

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