2 Stocks That Could Double Their Dividends Shortly

Description

It’s easy to forget the fact that dividends are simply excess profits. If a company earns more net income than it needs to reinvest in the business or retain for future operations, it can distribute that excess cash as a reward for shareholders.

With that in mind, I believe income-seeking investors should be on the lookout for companies that are already earning far more than they need to reinvest and are poised for substantial growth in net income over the next few years. The two key indicators of dividend growth, in my opinion, are low payout ratios and high returns on equity.

Here are two companies that seem to have extremely low payout ratios and remarkably robust return on equity that push their dividends substantially higher within just a few years.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) is probably one of the most interesting retail stocks on the market at the moment. The stock price has nearly doubled in less than two years. Meanwhile, the convenience store business is probably one of the most recession-proof businesses out there.

That makes Alimentation the preferred option for investors seeking rapid growth and a hedge against a potential market crash. However, I believe the stock should also be on the radar for investors seeking dividend growth.

Alimentation currently offers a paltry dividend yield of just 0.55%, which is why it isn’t really considered a dividend star. However, the reason for the low dividend yield isn’t a high valuation or low income, but a rather low payout ratio. Management seems to be holding more cash back to invest in acquisitions that could help double the company’s net income in five years.

If this strategy is successful, investors can expect the dividend payout to double in less than five years as well. In fact, the dividend could more than double if management decides to raise the payout ratio cut back on acquisitions five years later.

iA Financial

iA Financial (TSX:IAG) is another dividend-growth favourite. Similar to Alimentation, iA's management team pays out far less than it can afford. The dividend-payout ratio is just 28.04% at the moment. Meanwhile, the company's return on equity is 12.7% over the trailing 12-month period.

At that pace, the company's earnings per share could double in just six years. Assuming the payout ratio stays the same, the dividend could also double by then. The dividend could double sooner if management decides to be more generous with the payout ratio.

At the moment, iA trades at a fairly reasonable valuation. Price-to-book value per share and price-to-earnings are just 1.47 and 12.22, respectively. The dividend yield, meanwhile, is just 2.4%. In short, iA seems like a steady dividend-growth stock at a fair price. Long-term investors should probably add some exposure to this stock on pullbacks.

Bottom line

Sometimes, predicting dividend growth is easy. Companies that have historically been conservative with their cash flow and are expected to generate more cash flow in the future have plenty of room to expand dividends. The two stocks mentioned here can double their dividend payouts without denting the strength of their balance sheets or encumbering future growth. Add them to your list!

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:IAG (iA Financial Corporation Inc.)

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vraisinghani