



The 3 Best Stocks That Are Secretly Dividend Stars

Description

The best stocks are the ones that are underestimated. Sometimes, investors need to dig in a little deeper to recognize an opportunity others may have missed. One such source of hidden value is the payout ratio — the amount of money a company pays out in dividends compared to how much it can *actually afford to pay*.

Stocks with low payout ratios are, in my view, hidden gems. These companies can sustain their dividends during downturns. They can also raise their dividends easily every year if economic conditions are favourable. It's a win-win.

With that in mind, here are the best stocks that are secretly dividend stars.

Best stock for retail investors

Alimentation Couche-Tard (TSX:ATD.A)(TSX:ATD.B) is my top pick for a hidden dividend star. The stock offers a paltry 0.7% dividend yield. That's probably why no one considers it a viable income stock.

However, Couche-Tard can afford to pay *10 times more*. Its payout ratio is just 9.9% right now. Why so low? The management team has been keeping cash on hand for a mega-deal. Over the past year, it tried to acquire a major convenience store chain in Australia and a grocery brand in France. Both deals fell apart.

The management team believes it can eventually put this cash to use. However, if they don't secure an attractive deal, there's a chance the team could hand this cash back to shareholders. In other words, the dividend could surge significantly higher.

At the moment, Couche-Tard stock trades at a price-to-earnings ratio of 16.4. This is one of the best stocks to buy for long-term portfolios.

Best stock for value investors

Cogeco ([TSX:CGO](#)) is rarely mentioned on this site or by most investors. That could be a potential sign that it's an overlooked investment opportunity. The Montreal-based company is a media giant with [impressive growth and earnings](#).

Revenue and free cash flow have jumped 3.7% and 14.6%, respectively, in its most recent quarter. The stock, meanwhile, is up 14% year to date. However, it still trades at just 10.6 times earnings.

Cogeco also offers a 2.4% dividend yield that's deceptively low. The company's payout ratio is just over 30%, which means it can triple the dividend with cash to spare. This hidden dividend star should be on your list of best stocks to buy in 2021.

Best stock for financial investors

Manulife ([TSX:MFC](#))([NYSE:MFC](#)) is the final pick on this list. Just like Cogeco, the company's payout ratio is roughly 30%. That gives it plenty of room to expand shareholder rewards.

Manulife's diverse portfolio of financial services and exposure to Asian economies is particularly attractive. The stock is less exposed to financial turmoil in North America, which is excellent for Canadian investors trying to diversify their portfolios.

The stock trades at an unbelievable 6.7 times earnings and offers a huge 4.6% dividend yield. It's probably one of the best stocks to buy if you're seeking a bargain.

CATEGORY

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2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:CGO (Cogeco Inc.)
4. TSX:MFC (Manulife Financial Corporation)

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