3 Dividend Stocks to Build Wealth

Description

If you're not in a hurry to earn current income, you can consider owning dividend stocks that pay a decent yield *and* provide above-average price-appreciation potential. For this strategy to work, you should hold a basket of such dividend stocks for at least three to five years. This way, you give time for the underlying businesses to perform again.

Stella-Jones stock

Stella-Jones (TSX:SJ) has been profitable *every single year* for at least the last 20 years. There were only a couple of years in which it experienced an earnings drop. The company tends to buy back its common stock, which helps keep its earnings stable.

Management also returns value to shareholders through an increasing dividend. Specifically, Stella-Jones stock has increased its payout every year since 2005. Its five-year dividend-growth rate is 12.5%. Based on its steady earnings and payout ratio of about 23%, it has the capability to continue increasing its dividend.

The dividend stock is out of favour right now. The basic materials stock has been in a downward trend since May 2021. However, its earnings remain strong. At $38.60 per share, it trades at an attractive valuation and pays a decent yield of approximately 2.1%. Analysts believe the stock is undervalued by about 26%. Over the long term, rising infrastructure spending should increase the demand for its pressure-treated wood products.

Open Text stock

Open Text (TSX:OTEX)(NASDAQ:OTEX) is another stock that's also out of favour. It was probably negatively affected by the tech stock selloff, along with rising interest rates, and slowed growth. However, all these factors should become irrelevant over time.

The information management software company has demonstrated a track record of profitability. Its earnings only dropped in one year over the last 20 years. Its cash flow generation has also been very strong. In fact, it generates substantial free cash flow. Its trailing 12-month free cash flow was US$688 million, leading to a payout ratio of about 33%.

The tech stock has been in a downward trend since September 2021. As they say — buy low, sell high. Now that it's undervalued by roughly 30% according to analysts, it's a good time to start buying the cheap dividend stock. It yields 2.1% and has boosted its dividend at a compound annual growth rate (CAGR) of 13.6% in the last five years. A resumption of growth will drive this stock much higher over the next three to five years.

goeasy stock

Leading subprime lender **goeasy** (TSX:GSY) outperformed during the pandemic, helped by a boost in cash from government aid to people in need. The growth stock has been in a downward trend since October 2021, as the pandemic boost wore off.

According to analysts, the dividend stock is substantially undervalued with a discount of 44%. At $126 per share, goeasy yields about 2.9%. There will always be people who can't borrow from traditional means and need its products and services, which is partly why the company has been a great growth stock in the long run. goeasy's 10-year dividend growth was an incredible CAGR of 22.7%!

The stock can trade much higher in three to five years barring a market crash scenario.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:GSY (goeasy Ltd.)
3. TSX:OTEX (Open Text Corporation)
4. TSX:SJ (Stella-Jones Inc.)

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kayng