3 Underrated Dividend Stocks That Are Aristocrats in the Making

Description

The Canadian benchmark for a stock to become a Dividend Aristocrat is relatively modest; it takes five years of consecutive dividend growth. That's why we have over 90 aristocrats. The list would shrink quite a bit if we adopted the same benchmark as our neighbors south of the border (it takes a stock 25 years of consecutive growth to become an Aristocrat).

And even though the aristocratic pool is sizeable enough, you don't necessarily have to limit yourself to it if you are looking for safe dividend stocks.

There are plenty of underrated dividend stocks that are Aristocrats in the making, and at least three of them should be on your radar right now.

A royalties stock

There is a decent number of Aristocrats among the energy stocks in Canada as well as companies like **Freehold Royalties** (TSX:FRU) that are on their way to that elite club. The company has been growing its payout for three consecutive years and has raised it seven times since 2020.

However, this recommendation should be taken with a small grain of salt, as it also slashed its payouts quite hard in 2020, when the energy sector wasn't doing very well.

It has a different business model than what you might be used to in Canada's energy sector. The company generates revenue royalties associated with its oil and gas properties across North America.

It has a massive portfolio — 6.4 million gross acres in the country, 0.9 million in the U.S., and an interest in over 15,000 wells (production stage). The client portfolio is just as impressive with 350 different industry operators.

An equity partnership stock

Alaris Equity Partners (TSX:AD.UN) is a Calgary-based company that invests in financially distressed businesses and takes on a non-controlling stake. This allows the original business owners to get the financial assistance they need to survive without giving up control.

Since it doesn't assume control of the businesses it partners with, Alaris maintains the safety of its investments via a stringent selection criterion and diversity.

The company has a portfolio of 18 partners right now, including businesses like plastic surgery, home equity loans, IT consulting, digital marketing, etc.

The chances for this company to become an Aristocrat are pretty strong. It has grown its payout twice since 2020; if the pattern continues, it might become an Aristocrat in a few years. It's a strong dividend pick, with a 7.6% yield and a safe payout ratio.

A mortgage lender

If you are looking for an even more generous dividend stock than the two above, **MCAN Mortgage** (TSX:MKP) is a compelling choice. The mortgage company is currently offering a 9.5% yield. If you invest $20,000 in the company, you can expect a monthly income of about $158 using less than one-fourth of a fully-stocked TFSA.

The dividends are backed by a relatively healthy payout ratio (less than 90%). MCAN has grown its payouts consecutively since 2019 and has also issued special dividends in the past two years. It's the closest of the three stocks to become a Dividend Aristocrat.

The portfolio includes both commercial and residential mortgages, which may prevent the company from the worst of the current housing crash, but it may suffer. We have yet to see whether this suffering will translate into dividend cuts.

Foolish takeaway

Investing in high-yield stocks that are on the verge of becoming Aristocrats (at which time, they may gain mainstream attraction) is an intelligent and easy-to-execute investing strategy. However, it can be made more prudent by taking the capital-appreciation potential of such stocks into account.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:FRU (Freehold Royalties Ltd.)
3. TSX:MKP (MCAN Mortgage Corporation)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/02
Date Created
2022/11/14
Author
adamothman