3 Underrated Dividend Aristocrats in the Making

Description

Dividend Aristocrats are perfect investments for building a nest egg through good times and bad. With dividends that have held up and grown in the face of turbulent economic conditions, the group deserves to trade at a rich premium. Further, whenever they experience downside, investors ought to strongly consider buying on the dip, while the yield is swollen, given the risks of a dividend cut are next to nil!

The only issue with the Dividend Aristocrats is that there aren't many of them. It's a very exclusive group to be in, as it entails firms hiking their dividends every year for the past 25 years.

Over such a long timespan, crises, crashes, and everything in between are bound to happen. Company dividends and free cash flows tend to crumble in such environments. However, the Dividend Aristocrats don't have such issues, given the resilience of their businesses and solid managers.

In this piece, we'll consider three intriguing Canadian stocks that could evolve to become Dividend Aristocrats over the next decade or so.

Constellation Software

Constellation Software (TSX:CSU) has been a big winner for Canadian investors over the past decade. The stock's essentially a multi-bagger, and it doesn't seem to be showing signs of slowing down. The company, which invests in early-stage software companies, boasts one of the most impressive management teams out there.

They know how to create value and bring out the best in the firms they look to scoop up. Unlike most other private equity plays, Constellation generates a solid amount of earnings growth. In short, Constellation does tech right by acquiring firms based on fundamentals and profitability prospects, rather than chasing what's “hot” at any given time.

Steady growth has led to a good number of dividend hikes. Though the payout is tiny at 0.25%, it is subject to greater growth potential over time. Over the years, we'll see Constellation mature, and eventually, it may adopt a more generous shareholder return policy. Arguably, Constellation is already mature enough to start offering a yield north of 2%, with its $45.45 billion market cap.

It's a future Dividend Aristocrat I'd be willing to hold for decades.

Hydro One

For those seeking a higher upfront yield, **Hydro One** (TSX:H) is a destined Dividend Aristocrat to hold up one's TFSA. Shares yield 3.1% at writing. After surging more than 63% in five years, the Ontario-based transmission utility is one of the ways to have your cake and eat it, too. The company has a monopoly-like position protecting its big chunk of economic profits. Regulatory hurdles will keep it this way for the long run.

At 21.4 times trailing price to earnings (P/E), H stock isn't all too cheap, given it's not exactly a fast grower. In any case, you're paying for a steady ride in a market where almost everything is skating on thin ice!

PetValu Holdings

PetValu Holdings (TSX:PET) is a homegrown pet supply retailer that's enjoyed impressive recession-resilient growth in 2022. Looking ahead, expect more of the same from a discretionary that I view as more of a staple.

After surging 17% year to date, PET stock is just a hair shy of new highs, with a rich 27.4 times trailing P/E multiple. Like Hydro One, you're paying for quality in the face of market turbulence. With a 0.62% dividend yield, PET stock may not seem like a great dividend play, but if you give it 10 years, I think the payout will grow into something special for investors.

CATEGORY

1. Investing

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2. TSX:H (Hydro One Limited)
3. TSX:PET (Pet Valu Holdings Ltd.)

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