The Safest Dividend Payer on the TSX

Description

I’ve found what I think is one of the safest dividend-paying stocks on the Toronto Stock Exchange.

The company has seemingly ignored the ups and downs of the market over the past few years. Instead, this stock has posted boring, steady returns quarter after quarter.

Better still, during the past year this firm earned $420 million in profits. Yet the company only distributed $170 million in dividends. In other words, the firm could see its earnings fall by more than 60% and it would still be able to make the payment to shareholders.

But it’s not the stock’s consistent performance that makes me think it’s one of the safest dividends in Canada. Nor is it the millions of dollars in earnings that cover the dividend payment. Rather, it’s how this company earns its money that makes it so stable.

Is this Canada’s safest dividend?

Tim Hortons (TSX: THI)(NYSE: THI) is one of those forever stocks. It’s a giant, cash-rich company that has survived the test of time. But more important than the company’s 50-year history, the underlying business meets two important tests from the perspective of a dividend investor: it’s both recession and inflation resistant.

Recession resistance is the easiest to describe. Clearly, the last thing we want during an economic downturn is to watch our stream of dividend income dry up.

Tim Hortons could almost be described as recession-proof. While most will put off the purchase of a flat screen television or new furniture when the economy starts to sour, many won’t think twice about coughing up $1.50 for their daily coffee fix. That’s something you can count on no matter what scary headlines are in the newspapers today.

However, protection from rising prices is a far more important quality. Inflation is the constant, nagging tax on our wealth. Sure, a company may be able to safely maintain a dividend payment, but that's no good if those dollars buy fewer and fewer goods.

Once again, this company passes with flying colours. Now that Tim Hortons is a part of all things Canadiana, the company has locked in a loyal customer base — the hallmark of a wonderful business. That makes it far easier for the firm to pass on higher prices to patrons and generate superior profit margins year after year.

Of course, we're most interested in the dividend — and its safety. Today, Tim Hortons pays $0.32 per share every quarter. That amounts to $1.28 each year, or a 2.14% yield at today's share price.

That yield might not blow your socks off, but here's the kicker — Tim Hortons has increased that payout 360% since going public in 2006.

Thanks to a slew of growth opportunities in the United States and the Middle East, the company's rising earnings should allow management to increase that payout at a 8% to 10% annual clip over the next five years. And given that Tim Hortons is only paying out about a third of its current profits, there's nearly no risk of a dividend cut in the near future.

That doesn't mean this is risk-free. Nothing in investing is. Tim Hortons faces challenges from larger American rivals like **Starbucks** and **McDonald's** on its home turf. And given the stock's massive rally over the past few years, risk-adverse investors may want to consider buying the stock on a pull-back.

However, one thing is for sure: This is a dividend you can count on. When you own a stock like Tim Horton's, you no longer need to worry about things like inflation, bear markets, or depressions. If history is any guide, this company will just continue to crank out steady profits and dividends for shareholders.

CATEGORY

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