



This Dividend Machine Has Increased its Payout 10 Years in a Row

Description

[Canadian Tire Money](#) To most people, **Canadian Tire** ([TSX: CTC.A](#)) is where they bought their first bike or their go-to spot for a new spark plug.

But for investors, the retailer is also a source of growing dividends.

Buoyed by rising sales and profits, Canadian Tire has boosted its quarterly dividend at a 14.9% compounded annual rate over the past decade, during which time the payout has more than quadrupled.

Lately, the hikes are getting bigger. The most recent increase in January was more than 25.7% — a sign the company sees more good times ahead.

Admittedly, Canadian Tire's 1.9% yield isn't high enough to attract the attention of most dividend investors. However, given the company's solid growth prospects, that payout will almost certainly continue to rise.

In spite of competition, the retailer is posting strong sales at its namesake location, as well as at its other stores like Mark's, Sport Chek, and Atmosphere. Canadian Tire's fourth-quarter results — the most important time of the year for a retailer — demonstrate this trend. Consolidated earnings per share grew 13.5%, well ahead of management's expectations. Gross margins also improved 1.23%, a clear indication that competition isn't hurting the bottom line.

The company still has a long expansion runway ahead of it. Since Canadian Tire took over Forzani Group Limited in August 2011, the Calgary-based sporting goods retailer has provided a big shot of growth. Forzani's growth strategy — which includes stores like Sport Chek, Atmosphere, Nevada Bob's Golf, and Pro-Hockey Life — is set to add more than 100 new stores and more than two million square feet of space in the next five years, as well as a big push into e-commerce.

The company is also reinvesting in its namesake Canadian Tire locations, namely its automotive parts and kitchenware departments, in an effort to improve the shopping experience. It has poured more money into better store fixtures, as well as the overall look of these departments and

their merchandise. Expect to see these investments pay off in same-store sales in upcoming quarters.

However, this is more than just a retail story. Over the past few years, the company has been wheeling and dealing to create value for shareholders.

In 2013, Canadian Tire spun off its real estate portfolio, unlocking an enormous amount of value from a hidden asset on its balance sheet. Earlier this year, Canadian Tire sold 20% of its credit card business to **Bank of Nova Scotia** for \$500 million. All of this money could be used to clean up the company's balance, increase its modest dividend, or buy back shares.

Of course, this bull thesis isn't bulletproof. Discount retailers like **Target** are rebuffing their Canadian expansion plans. And after a stellar run, some are worried that the stock is looking expensive.

However, Canadian Tire has withstood the competition remarkably well, a testament to the strength of the company's brand name that has survived for decades. Also, the stock's valuation could hardly be described as nosebleed at 13 times forward earnings.

Risks aside, income investors can count on a growing stream of dividends from Canadian Tire thanks to its good growth outlook. That's why it deserves a place in any income portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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