The 105 Year Old Dividend Stock That's Crushing The Market: Canadian Tire Corporation Limited

Description

With dividend yields, bigger isn't always better.

Case in point: **Canadian Tire Corporation Limited** (TSX: CTC.A). Canada's automotive store has rarely yielded much more than 3% over the past decade. Yet, investors who gave the stock a pass based on yield alone would've missed out on some phenomenal profits.

For the 20 years ended October 31, Canadian Tire's annualized total return was 12.2%. Since 2000, the company's dividend has grown nearly fivefold. And earlier this month, the firm hiked its quarterly payout another 5% to $0.525 per share, marking the 11th increase over that time.

The company has been able to grow earnings in good times and bad. It's this type of long-term consistency that sets the firm apart from rivals. And that payout is likely to continue growing for a couple of reasons…

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Source: Canadian Tire Investor Relations

Firstly, management has been wheeling and dealing to create value for shareholders. Over the past two years, Canadian Tire has spun off its real estate portfolio and sold a 20% stake in its credit card business. These proceeds could be used to fund more big dividend hikes.

Second, Canadian Tire's acquisition of Forzani Group Limited in 2011 has provided a big shot of growth. You've probably shopped at one of the retailer's Sport Chek, Atmosphere, or Pro-Hockey Life stores. The division is making a big push into e-Commerce and is set to add more than 100 new locations by 2019.

Finally, just like my backyard next spring, the company's namesake stores are due for a bit of a spruce up. In an effort to improve the shopping experience, Canadian Tire is renovating its namesake locations. That should provide a quick sales bump.

These efforts are already starting to show up in the firm's financial results. Last week, Canadian Tire reported that revenues increased to $3.07 billion versus $2.96 billion a year ago. Same-store-sales, a key metric in retail, saw healthy gains across all divisions. At the bottom of the income statement, profits rose 22% year-over-year.

To be sure, Canadian Tire is hardly a slam dunk. With the stock up so much over the past year, some are worried that the shares are looking pricey. Discount U.S. retailers like **Target Corporation** are also rebuffing their Canadian expansion plans.

However, the stock's valuation could hardly be described as nosebleed at 14 times forward earnings. The company's margins have also withstood the new competition incredibly well, a testament to the strength of the Canadian Tire brand.

No doubt, this firm will have its ups and downs. Everything from gas prices to the fickle tastes of consumers will all impact the bottom line. But given the company's track record of distribution hikes, investors who shop for Canadian Tire shares will be rewarded with growing dividends for years to come.

"Clearly, we have a great deal of momentum and the Tire is on a roll right now — pun intended," joked president and incoming CEO Michael Medline during a conference call with analysts last week.

Don't expect the company to stop now.

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TICKERS GLOBAL

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

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