Can You Trust Superior Plus Corp.'s 5.6% Dividend?

Description

While **Superior Plus Corp.** (TSX:SPB) has paid out a healthy dividend for most of the past decade, it hasn't always been stable. The current payout of $0.72 a share results in a 5.6% yield. Back in 2010, however, dividends were a whopping $1.62 a share, only to be cut to $0.60 over the next two years.

Recent history does suggest that things have stabilized. In 2014 the company was able to give its dividend a modest $0.02 boost to $0.62, and 2015 saw a $0.10 increase.

Has the company reached a point where investors can start to rely on the company's high and recently growing dividend?

Debt reduction reduces uncertainty

A major reason for the past dividend cut was Superior's outsized use of debt. In 2010 the company's total debt was over five times that year's EBITDA. When earnings took a temporary dip, the company was forced to save cash wherever it could. Cutting the dividend by 60% was an easy way to accomplish this.

Over the past five years, however, Superior has been much more prudent with its capital allocation. Total debt to EBITDA has fallen every year to the current 3.2 times level. Over the next few years management anticipates reducing its leverage even more. A more conservative approach to taking on debt should help keep the dividend on safer ground.

Lower costs are increasing profitability

Of course, the easiest way to support the dividend is to grow profits. Superior makes most of its money by distributing propane to businesses and homes across North America. The company is Canada's largest retail supplier of propane.

Falling wholesale prices for propane and heating oil costs not only make their products more appealing, but also aid in lowering input costs. In 2010 operating expenses comprised 77% of gross profit. This year that level is expected to fall to only 67%. Based on last year's financials, this results in a roughly $30 million boost in EBITDA. With wholesale propane pricing anticipated to remain low due to an excess supply of liquids-rich gas, Superior should continue to reap the benefits.

Insider buying

Some indirect support of the dividend’s future viability comes in repeated insider buying over the past couple months. Since May, five directors have bought over $150,000 worth of stock. Since January, there have been a dozen insider buys throughout nearly the entire year. A management team backing up their forecast with actual stock purchases is typically a good sign.

Fear not, the dividend appears to be safe

While the company’s history may make some investors cautious about trusting Superior’s 5.6% yield, informed investors know that increased profitability and a significant reduction in leverage relieves a lot of doubt. With a further reduction in debt planned and margins expected to remain elevated, it looks like Superior is a solid add to an income-focused portfolio.

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1. TSX:SPB (Superior Plus Corp.)

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