Income Investors: Increase Your Yield From George Weston Limited by 274%

Description

There are a lot of reasons to be bullish about **George Weston Limited** (TSX:WN).

The big reason is because of the company's large stake in **Loblaw Company Limited**, Canada's largest grocer and because of its 2014 acquisition of Shoppers Drug Mart, Canada's largest pharmacy chain. Between all of its brands, Loblaw now has more than 1,800 pharmacies in its 2,300+ stores.

The pharmacy business is attractive because it has high margins, customers tend to be loyal, and there are millions of Canadian baby boomers who are about to start using prescription drugs in a big way as they get older.

It isn't just Weston's 46% stake in Loblaw that should attract investors to the company. It also owns some 38% of **Choice Properties Real Estate Investment Trust** indirectly because Loblaw owns 82% of its recently spun-off REIT. And finally, George Weston owns its namesake bakery company, which does about $2 billion in revenue yearly with an operating income of some $250 million.

Add up those stakes, and essentially investors are getting the bakery division for close to free. There's a about $16-17 billion worth of net assets there, and investors are paying $15 billion for them. That's not a huge discount, but it's still worth noting.

The only big disadvantage to owning shares is the anemic dividend. Yes, management has hiked the dividend in each of the last four years, but growth hasn't been spectacular. The quarterly dividend has gone up from $0.36 to $0.43 per share, a growth rate of less than 5% annually. Combine that with a paltry 1.53% current yield, and it's easy to see why income investors would make a different choice.

But what if I told you there was a way to substantially increase your yield from George Weston? There's a way that you can really supercharge your dividends, increasing them up to 274%. Here's how.

Prefer the preferred shares

George Weston currently has four different preferred shares outstanding, each with pretty similar characteristics. All of them are what's called perpetual preferreds, which means they'll maintain the same quarterly dividend payment the entire time they're outstanding. Here's a summary of the current yields.

Issue	Yield
WN.PR.A	5.72%
WN.PR.C	5.48%
WN.PR.D	5.44%
WN.PR.E	5.29%

Why is there such a difference in yields, considering how they're all similar securities from the same issuer? Because as the yield gets lower, the discount to par value gets higher. Investors in the series E preferred shares are happy to take a lower yield in exchange for the potential that the company will someday pay them par for those shares. The current price of those shares is $22.43, meaning there's a potential 10% capital gain if the company redeems them at the $25 par price.

Are the preferreds right for you?

Two things investors in the preferred shares are missing are potential growth in the dividend and possible upside in the common shares.

The important thing to remember is preferred shares are for investors who want income now. In exchange for giving up the dividend-growth potential the common shares offer, investors are getting a huge premium in yield. At 5% growth, it would take the common shares' 1.5% yield decades to catch up to the yield of even the series E preferred shares.

And in today's somewhat overvalued market, I don't think missing out on potential upside of the common shares is such a big deal either. Remember, during sideways or down markets, preferred shares can often outperform their common counterparts, since they're less susceptible to market swings.

If you're looking for an attractive current yield from a company with a demonstrated history of dividend success, George Weston preferred shares look like a pretty good choice. Hey, it sure beats a 1.5% GIC.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:WN (George Weston Limited)

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