



Linamar Corporation Is Poised to Be a Dividend-Growth Superstar

Description

Over the last decade, it's been good to be a dividend-growth investor in **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)). Back in 2005, the company paid a monthly dividend of just 1.7 cents per share, content to shovel most of its cash flow back into growing its cable, satellite, Internet, and home phone divisions. And remember, back in 2005 Shaw was seriously contemplating a move into wireless as well, which never actually came to fruition.

We all know what happened next. The company finally got serious about growing its payout, and has an enviable dividend-growth record as a result. Shaw gave investors dividend growth of approximately 20% per year over the last decade, and currently shares yield 4.5%.

Investors probably can't expect those kinds of raises to happen in the future, but they can probably still count on small annual raises. Most dividend-growth investors look backwards, identifying the companies with an established record of increasing payouts. I'm not sure I agree with that strategy so much, since by the time a stock has a decade of consecutive dividend increases under its belt, it often comes with a lack of growth potential.

To put it another way, it's much easier to grow a dividend when a company has a 20% payout ratio compared with a 70% payout ratio. With that in mind, I tried to identify a Canadian stock that has the potential to really get aggressive in raising dividends over the next decade or two. I think I've found the perfect qualifier, auto parts maker **Linamar Corporation** ([TSX:LNR](#)). Here's why I think dividend-growth investors should be taking a very close look at this potential superstar.

Always in demand

It's easy to argue a company like Linamar is cyclical in nature, since the auto industry itself is well known to be a boom-or-bust business. There's a reason why shares of Linamar trade at a P/E ratio of just 11.5, which is a pretty healthy discount compared with the rest of the market.

Much of Linamar's revenue comes from powertrain components for vehicles, with many of the world's largest car manufacturers as customers. But the company also makes parts for farm equipment, big trucks, wind energy, and different scissor and boom lifts. Linamar has been a growth-by-acquisition

story, like many of the other parts companies.

For the full year in 2014, revenue was up more than 16% to \$4.2 billion. Profits also increased, jumping from \$230 million in 2013 to \$320 million in 2014. Thus far in 2015, the trend is continuing. Through the first two quarters of the year, Linamar has reported a net profit of \$234 million, putting it on pace for nearly \$500 million in profits for 2015. That works out to a little more than \$7 per share in projected profits for the year, good enough for a forward P/E ratio of less than 10.

There are very few stocks in today's market that offer Linamar's growth potential with a forward earnings multiple of less than 10. Even if the company is cyclical in nature, that's still a pretty attractive combination.

The future of dividend growth

Here's where Linamar really gets exciting, at least for dividend-growth investors. Currently, the company has a meager \$0.10 per share quarterly dividend, which translates into a pretty pedestrian 0.59% dividend yield. That's hardly worth getting excited about. But it's also a dividend that has huge potential to increase.

Let's assume a bearish scenario and say earnings don't grow for a decade, and the company makes \$7 per share annually 10 years from now. If dividends grew 20% per year, at the end of the decade the company would be paying out \$2.48 per share in dividends. That's a payout ratio of just 35.4%, assuming zero growth in earnings. That also leaves plenty of excess cash flow in management's hands to be used to acquire more growth, or buy back shares.

It's hard to predict what a company will do over the course of decades. But if you're looking for the next dividend-growth superstar, I'd suggest loading up on companies like Linamar that have tiny payout ratios and a history of growing dividends. Eventually, the dividend growth will come, and in a big way, too.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:SJR.B (Shaw Communications)

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