Income Investors: This 5.6% Dividend Yield Is Much Safer Now

Description

Investing in **Gluskin Sheff + Associates Inc.** (TSX:GS) has just become much safer after the settlement of an arbitration case. Income investors may be drawn to the high 5.6% dividend yield the stock currently offers today.

Gluskin Sheff is a professional investment manager, targeting high net worth private clients and institutional investors.

The company announced on March 17, 2016, that it was going into a binding arbitration in a matter with its now retired co-founders, Ira Gluskin and Gerald Sheff, relating to a dispute under their transition and retirement agreements, and the two were seeking about $185 million from the firm.

Unfortunately, with no clear dates for the proceedings and final closure to the matter, there was a heavy cloud of uncertainty for all company stakeholders as the sum involved was very significant to the firm's operations.

However, the company announced on July 6, 2017, that it has received an arbitration ruling on the matter, and the great news for investors is that the cash award to the complainants is an aggregate payment of up to $13.8 million, offering great relief to stakeholders.

The arbitration ruling has undoubtedly eliminated a serious source of uncertainty on the stock, and the company has the potential to resume its high growth in assets under management and increase in profitability.

Gluskin Sheff had enjoyed a nearly 20% compound annual growth rate in assets under management since its inception in 1984, and it had $8.9 billion in assets under management as of March 31, 2017. It is from this growing asset portfolio that the company charges base management fees as well as performance fees if certain periodic return targets are achieved.

Stable dividend

Gluskin Sheff has proved to be a very dependable dividend payer since 2012. The company currently pays a flat $0.25 regular quarterly dividend that is yielding 5.6% annually at the current share price of $17.84.

Special dividends have been paid each year since 2012.

The company has increased its payout every year by a constant $0.025 per share once every November since 2012, but the increase wasn't effected last year, probably due to the company preserving cash for the pending legal case.

Since 2013, the company has declared a special dividend every February and September, then increased the regular payout each November, but just one special February dividend was paid and no payout increase was effected last year.

The just settled arbitration could be the reason why the company hasn't declared any special dividend this year, which is all the more reasonable.

Potential for growing income

Gluskin Sheff's regular dividend-payout ratio stood at 88% of net income for the year ended June 30, 2016. The payout represented 52.7% of financial 2015 income and 19.1% of income for the same period in 2014.

However, special dividends raised the payout to 38% in 2014, 105% in 2015, and 98% in 2016.

For 2017, the company's regular $1-a-share annualized divided is just 70% of the projected diluted earnings per share (EPS) for the year, considering an analyst estimate of $0.22 diluted EPS for this fourth quarter ending June 30.

Now that the hanging legal cloud has cleared, the company has room to declare a traditional special dividend for September and could resume its traditional dividend increases in November this year.

Most interesting, if the two dividend events do come to pass, investors at today's share price levels could enjoy a 6.2% regular annual dividend yield going forward before any (traditional) special dividends.

Investor takeaway

Gluskin Sheff + Associates offers a compelling income investment case today, and investors could enjoy some potential capital gains as the company enjoys nearly 30% average net profit margins.

Furthermore, I expect the company to accelerate its growth in assets under management now that the legal case uncertainty threatening investors is gone.

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