Investors Should Consider Investing in Grocers

Description

When investors consider purchasing any given security, it is important to identify the reason for the purchase. Depending on the sector, it can sometimes be easier to determine the reason. In most cases, technology companies or younger "growth" companies are bought for capital appreciation, while larger, more established (defensive companies) such as telecoms are most often bought for the dividend income.

Most often, however, the is a mix of capital appreciation and dividend income, which makes up the total return for a stock. The aggregation of all investments will provide the total rate of return for an investor's portfolio. As a rule of thumb, companies that are defensive and generate consistent streams of revenues are most often the best dividend payers, while cyclical companies, or mining and resource companies, will be inconsistent over a full market cycle.

Over the past decade, shares of **Goldcorp Inc.** (TSX:G)(NYSE:GG) went from paying a very healthy monthly dividend to current dividend of less than 0.75%. The amount is also now paid quarterly. Although investors did very well with this metal for a very long time, it is important to realize that when the market eventually shifted, the cash flows were no longer available to support the dividend.

For more consistent dividend payments, we need to look at a different industry.

For investors considering Canada's grocers, there is some fantastic news. Shares of the much smaller grocery store, **North West Company Inc.** (TSX:NWC), currently offer the highest dividend yield in the industry. Currently offering new investors a yield close to 4.25%, the company has extremely consistent revenues and earnings. Operating in remote regions across northern Canada and Alaska, the company has the ability to forecast revenues and expenses better than most grocers. To boot, the low oil prices have greatly helped the company's income statement as the cost to transport goods by airplane has remained subdued.

The second-highest dividend in the industry comes from **Empire Company Limited** (TSX:EMP.A), which offers a yield of almost 2%. The grocery retailer, which has a national footprint, was recently hit hard after an acquisition in western Canada did not turn out as expected. In fact, the timing could not have been worse given the decline in oil prices. As a reminder, Alberta is largely driven by the oil sector.

The second-largest grocery store by market capitalization in the country is **Metro, Inc.** (TSX:MRU), which boasts a dividend yield of no more than 1.5%. The company, which already has a considerable footprint across the country, may have difficulty expanding further. The result of this may just be a stagnant dividend. Time will tell.

The last grocery chain is Canada's largest, **Loblaw Companies Ltd.** (TSX:L), which also pays a dividend of 1.5%. Although the company has been successful in raising the dividend over the past five years, it has not been solely due to organic growth. The company acquired Shoppers Drug Mart in an effort to grow further.

At this stage, it remains unclear how revenues will increase by more than the rate of inflation for any of these companies. Should any of these companies be able to make it happen, however, dividend increases will most likely follow suit.

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1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)
4. TSX:NWC (The North West Company Inc.)

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Author
ryangoldsman