How Juicy Dividends Lead to Capital Appreciation

Description

For investors considering where to invest their capital to make money, there are two ways to accomplish this feat: through dividends and capital appreciation. When a company turns a profit, the money is first held in the company's bank account until it is either reinvested into operations or until a dividend is paid. Investors receiving a dividend need to be aware that for each dollar received, the company has one less dollar on the balance sheet.

Taking shares of **Lassonde Industries Inc.** (TSX:LAS.A) as an example, the fruit and vegetable juice company pays a dividend which currently offers a yield of little more than 1%. Instead, the bulk of the stock's return has consisted of the capital appreciation. For the past year, the company has increased by more than 20%, never offering investors a yield any higher than 1.5%. The good news for investors is the recent increase in the company's dividend.

In the past fiscal quarter, the dividends paid to investors have increased from $0.51 to $0.61 per share on a quarterly basis. Although the juice company has agreed to offer investors a higher amount of money each quarter, it is important to note that the dividends paid from the juicing profits are still retained within the company. From fiscal 2013 to the end of fiscal 2016, the retained earnings have increased from $342 million to $541 million. Through the first quarter of 2017, the amount continued to move upwards to $546 million.

In the case of Lassonde Industries, the juicy dividends (or lower dividends) have been the driver to capital appreciation.

When considering competitor **AGT Food and Ingredients Inc.** (TSX:AGT), the company has traditionally offered investors a higher yield — currently 2.5% on a rolling basis in spite of less than stellar returns. The company has declined by close to 25% over the past year, while maintaining the dividend. The key difference between this company's dividend policy and that of Lassonde Industries's is the payout ratio.

Over the past three fiscal years, AGT Food carried a dividend-payout ratio of 46% (2014), 88% (2015), and 69% (2016). The company swung to a loss during the past two quarters and has yet to turn things around. The dividend-payout ratio of competitor Lassonde Industries, however, has remained relatively low. The company has paid out the following percentages of earnings over the past three years: 25% (2014), 20% (2015), and 20% (2016). Clearly, there is a lot of room for growth in either the dividend or the potential for share buybacks.

Although most investors seek out investments with very high dividends, it is important to realize that a lower dividend-payout ratio can oftentimes translate to a higher opportunity for an increasing share price. For investors in Lassonde Industries, the lower dividend is expected to translate to high returns in the future.

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Date
2025/07/01
Date Created
2017/08/10
Author
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