With Raising Rates, These Names Could See the Biggest Dividend Increases

Description

With the effects of higher interest rates set to be felt by companies and investors over the next several quarters, it is now important for everyone to stop and take notice of how this will impact the total returns of investors. Although the rate increase was very minimal, it must be understood that this momentum has shifted and will be the new norm for quite some time.

The decline which led to low interest rates began with the recession of 2008/2009 and has continued for close to 10 years. Although rates have recently increased, they are still considerably lower than they were a decade ago. What this means for companies is that refinancing short-term debt will become more expensive much more quickly, whereas the refinancing of long-term debt (with maturities of 10 years of more) will take a much longer period of time to roll over at higher rates.

For the companies whose capital structures comprise of a significant amount of debt, the increase in interest rates will act as a headwind to share buybacks as the higher cost of capital will lead each company to rethink what the optimal amount of debt and equity really is. Let's not forget that this is a moving target depending on the level of interest rates.

When considering shares of **Lassonde Industries Inc.** (TSX:LAS.A), which pays a dividend yield of approximately 1%, the company has been a contrarian over the past several years. The company, which has a market capitalization of $775 million, reduced the total long-term debt from more than $350 million at the end of fiscal 2014 to approximately $205 million as of July 1 of this year.

Although the interest expense was no more than $15 million for the past fiscal year, the company had the opportunity of maintaining the same amount of debt while buying back close to 600,000 shares, or 8.6% of the total number of shares outstanding. The effect of fewer shares outstanding is typically higher earnings.

Another company which has reduced the total amount of debt on the balance amid a rising share price is **Saputo Inc.** (TSX:SAP). At the end of fiscal 2015, the company had long-term debt of $1.5 billion. Currently, the amount is $1.4 million. With a market capitalization of no less than $16.6 billion, the company's debt load remains very minimal.

Although most investors may prefer share buybacks over the repayment of debt, investors currently seeking profitable opportunities amid a higher interest rate environment may be very well served to consider companies that have displayed the discipline necessary to reduce the debt load in spite of cheaper rates, which have persisted for close to a decade.

Given that the increases in interest rates are very minimal and will happen very gradually, investors need not panic, but instead should remember this quote: "Only when the tide goes down do we see who was swimming naked." In this case, higher interest rates may lead to a lower tide.

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