



This Stock's Dividend Is Growing like it's on Steroids!

Description

Dividend growth investing is a fantastic strategy for long-term investors who want top-notch capital gains in the short- to medium-term to go with a huge dividend at some point down the road. If you're a decade or more away from your expected retirement date, a dividend growth stock you buy today will gradually evolve into a dividend stock that you'll be able to rely on for income when you're in your golden years.

When it comes to dividend growth investing, you want a stock with a solid history of high double-digit percentage dividend hikes on an annual basis. Have a look at the company's earnings growth and payout ratio over the last decade; if you see a steady upward trajectory, then you've probably got a dividend growth king on your hands. And as the dividend continues to be hiked by generous amounts, the stock will also appreciate as dividend-savvy investors take notice.

Consider **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), an absolutely wonderful stock with a very predictable earnings trajectory over the last decade.

Warren Buffett loves predictable earnings growth businesses like these because over the long haul, your invested capital in such businesses will steadily keep snowballing year after year through thick and thin. If you're a buy-and-hold investor with an extremely long time horizon, you'll could become very rich just by sitting on your bottom and reinvesting those dividends.

On the surface, Canadian Tire doesn't look like anything for dividend investors to write home about. The 2.1% yield is meagre compared to many other stocks out there, especially in the REIT, telecom, and utility sectors whose yields are well above 4%. Pfft... a 2.1% yield? How underwhelming, right? But before you stop reading this article, let's take a look under the hood so you can better fathom the gigantic longer-term rewards you'll receive by owning shares of Canadian Tire.

What may not be visible to many new investors is the magnitude of the company's dividend over the past decade.

Last year, [Canadian Tire hiked its dividend by a whopping 38%](#), which is substantially higher than the magnitude of a dividend growth king's average raise. Many investors would be more than happy with a

10% dividend hike, so a 38% hike is actually quite absurd (and exciting as an investor) when you think about it. At that rate, the dividend would double in just three short years and based on your original principle, you'd have a yield that's north of 4%!

Canadian Tire's latest dividend hike was overly generous, so investors shouldn't expect more whopping dividend increases like this every single year, especially as Canadian Tire is still firing on all cylinders in the growth department to keep up with the industry's technological trends.

What kind of dividend growth can investors expect over the long haul?

The company usually hikes its dividend in the high 10% range on a consistent basis, with the odd 30%+ hike thrown into the mix when business is really booming.

Right now, the stock's 2.1% yield is ~40% higher than the company's historical average yield of around 1.5%. Usually such a higher-than-average yield is indicative of a stock that has fallen; however, Canadian Tire's case is a rare anomaly that sees the stock surging past all-time highs. This usually only happens right after a massive dividend raise, when the stock hasn't had the time to skyrocket higher yet.

Bottom line

Canadian Tire is one of my favourite dividend growth stocks out there. The business has a huge moat and is quite [secure from the disruptive digital retailers](#) because of the nature of its business.

Over the last five years, both the stock and the dividend have more than doubled. The stock has surged ~145% and the dividend has grown ~157% from \$0.35 per share to \$0.90 per share in this period. If you owned this stock for the long term, you'd have no problem whacking the market!

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/10

Date Created

2018/01/20

Author

joefrenette

default watermark

default watermark