Why Massive Dividend Hikes May Become the New Norm for These Companies

Description

The stocks of **Canadian Tire Corporation Limited** (TSX:CTC.A) and **Restaurant Brands International Inc**. (TSX:QSR)(NYSE:QSR) are incredibly cheap stocks given that each business has the means to increase its EPS by a double-digit annualized amount for the long haul.

They're cash cows and dividend growth kings that very well may become premier dividend aristocrats in the coming decades. You're probably aware of each respective firm's dividend growth capacity, but here's why both firms (and many other dividend growers) may increase the magnitude of their annual dividends moving forward.

Dividend growth on steroids!

Each stock possesses a dividend yield that's substantially higher than their respective five-year historical average yields, and it's not because shares have been knocked down such that the dividend has an "artificially high yield." In fact, Canadian Tire is just ~5% off its all-time high!

Canadian Tire and Restaurant Brands recently rewarded shareholders with massive dividend hikes of 38% and 114%, respectively.

These huge dividend hikes serve as a compelling incentive for investors to own shares for the long-term rather than trading with the hopes of making quick gains. As such, these are stocks you'll want to own rather than trade, as you may miss an opportunity to enjoy a continually growing stream of income that you should be reinvesting if you want to unlock the true power of compounding.

What's the reason for these massive recent hikes?

Some analysts may believe that these massive hikes are an attempt to bribe shareholders into forgiving negative developments. These larger-than-average hikes may indeed be a "bribe," but not to get investors to forgive them for negative developments (like Tim Hortons' spat with franchisees). I believe the trend of larger-than-average dividend hikes are a way for management to fight back against an increase in the volatility of the broader market in order to bring their betas to lower levels.

The recent surge of volatility suffered by the broader market this year is unlike anything we've witnessed in a long time. Heck, even Jack Bogle said that in his 66-year career, "I've never seen a market this volatile."

Thus, the recent massive hikes by Canadian Tire and Restaurant Brands appear to be a means of dampening the volatility experienced by their respective stocks. The above-average dividends have made each respective stock more attractive through the eyes of dividend growth and income investors, not speculators and traders.

The higher yields and lower implied betas will likely attract even more investors, and traders may seek opportunity elsewhere in extremely volatile times. Think of the higher dividend yields as an anchor against the rough waters of volatility.

Both Canadian Tire and Restaurant Brands have increased the weight of their respective anchors (Restaurant Brands more than doubled it with its recent hike!). Thus, if sky-high volatility remains the new norm, Canadian Tire, Restaurant Brands, and other dividend growth stocks that have increased the weight of their anchors will be the stocks that will return the greatest deal of wealth back into the pockets of shareholders when many would rather sit on the shorelines until the rough waters calm down.

Don’t expect +35% dividend hikes every year though moving forward, however; it’s just not possible! Volatility will play a role in the magnitude of hikes going forward, but after Restaurant Brands’ +100% increase, one can only expect future hikes to be just marginally higher than the mean.

Bottom line

The increase in market-wide volatility may be horrifying to some, but for dividend growth investors, it’s an ideal opportunity to get ahold of wonderful businesses that are poised to return an even larger amount of wealth back into the pockets of its shareholders through larger-than-average dividend hikes, thereby attracting more income-oriented long-term thinkers in the process.

When the waters become calm again, I suspect that the magnitude of dividend growth will revert to the mean (lower double-digit annual dividend increases). However, we really don’t know when the bouts of volatility will subside.

In any case, both Canadian Tire and Restaurant Brands are sweetening the pot for risk-averse investors when many are feeling seasick from sailing in rougher waters.

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