Millennials: This Great Investment Is Hiding in Plain Sight!

Description

Dividends get a lot of attention in the investing world, and with good reason.

Not only does a regular dividend distribution allow for investors to reinvest those funds in additional shares or alternatively help to pay for living expenses, college education, or retirement, but it also provides valuable insight into what exactly the shares are worth in terms of their fair or intrinsic value.

However, sometimes a stock's dividend doesn't tell you the whole story.

Take for example the shares of **Dollarama** (TSX:DOL), which are currently trading for $37.32 on the TSX Index and are paying shareholders a 0.43% divided yield as of trading entering the week.

Dollarama stock's 0.43% dividend is almost worthless.

That 0.43% annual yield, if you were to assume that it were to stay constant, would mean that it would take you 232 years to recoup your $37.32 investment.

Even if you were to assume that Dollarama's dividend were to grow at the historical rate of Canada's gross domestic product (GDP) of around 3%, it would still take you more than 30 years to get back the money you paid for the DOL stock from the dividends you received from your shares.

Neither of those scenarios sounds particularly appealing, now does it?

Even accounting for the prospects of moderate increases in Dollarama's dividend over the next couple of decades fails to paint the whole picture.

That's because Dollarama is returning far more cash to its shareholders than what its stated annual dividend would have you believe — more than 16 times more cash than its annual dividend, in fact.

During the company's last fiscal year ended January 2018, Dollarama paid its shareholders $49 million of dividends in total. Yet it returned over $800 million to shareholders in the form of authorized repurchases of its own stock.

While share repurchases, or buybacks, as they're often called, don't end up directly flowing into shareholders' investment accounts in the form of deposited cash payment, they're viewed by finance PhD's to be actually no different than dividends.

The theory is that when a company buys back its own stock, it effectively "bids up" the value of its own shares, supporting the company's stock price.

It also serves to reduce the company's outstanding share count, which in turn helps to boost reported earnings per share and helps to lower the value of dividend payments that will have to be paid out to future shareholders.

Not to mention that share repurchases are generally viewed as providing greater flexibility to the company, as they can be adjusted depending on what the circumstances dictate and are additionally viewed as signals to the company that it views its own stock as being undervalued and thus an attractive buying opportunity.

Bottom line

Dollarama shares trade more than 30% off their 52-week highs, as the stock has begun to retrace some of the gains shareholders have enjoyed over the past decade.

Investors may want to wait for the shares to stabilize before initiating a new position in the company, while those owning DOL stock already may want to average down on the latest spell of weakness.

Fool on.

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2. Investing

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1. TSX:DOL (Dollarama Inc.)

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