Get Big Dividend Growth From This Canadian Legend

Description

In a world where no one seems to be going to the store anymore, some retailers like **Canadian Tire** (TSX:CTC.A) have managed to buck the trend. I was blown away by the quality of Canadian Tire's earnings. There has been nothing but constant negativity towards the sector, but the company continues to deliver.

For the past several years, Canadian Tire has been delivering constant growth. This may be due to the nature of its products, much of which appeal to homeowners in need of a one-stop shop for their home and yard needs. I can't count the number of times I have made a quick run to the store to grab a hose fitting or much-needed bolt for the children's play-set. While online retailers provide decent shipping prices and product selection, I still prefer to stroll into a store if I need something in a hurry.

Apparently, there are a lot of people who think like me. All those people going to pick up new bike tires have really added up. In the latest quarter, Canadian Tire increased its revenue by 11% year over year — not exactly a stodgy number from this brick-and-mortar company. This number translated into some pretty impressive earnings, such as net income increased by a respectable 15.3% and diluted earnings per share increasing by 21.7%. That is serious double-digit growth for an old-world contender.

The dividend is not too shabby at the current stock price, sitting at a respectable 1.5%. It was also recently increased by double digits, up 15.3%, or $0.55 a share. This increase certainly underscores the confidence management has in its ability to increase profits in the future.

Even with these great numbers, investors need to keep in mind that the secular picture has not changed that much. Canadian Tire is doing well, but how long can it compete against or manage to adopt new trends that are already derailing many traditional retailers? Canadian Tire does still hold an advantage over the online world at the moment, since it can readily meet the immediate needs of its customers. To maintain an investment in this company, an investor would have to have confidence that it can continue to do so.

There is also the nagging thought of an impending recession. It is certainly true that the Canadian economy has been doing well, with unemployment sitting at low levels. But I can't erase the thought that we have borrowed an insane amount of money both as a government and as individuals, leaving our country vulnerable to an economic downturn. If that happens, people will most likely spend less, putting pressure on the earnings of retailers like Canadian Tire.

Right now, given its growth rate, Canadian Tire could probably be added to a dividend-growth portfolio. Aside from speculation regarding the impact of online shopping and the potential fragility of the Canadian economy, there is no indication that its growth will slow anytime soon. If you are someone who believes in continued Canadian economic strength, a robust housing sector, and the staying power of brick-and-mortar retail, Canadian Tire would be worth buying today.

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