This Secret Dividend Is Ready to Increase by 500%

Description

Alimentation Couche-Tard Inc (TSX:ATD.B) isn't well known as a dividend powerhouse. On first glance, its 0.6% yield is entirely unimpressive. But the best time to buy big dividends is *before* they become big dividends.

Since 1999, Alimentation's share price has gone an incredible run, from just $0.85 per share at the start of the century to more than $70 today. Along the way, it's built up an incredible earnings base. Now with a $40 billion market cap, Alimentation generated $3 billion in EBITDA last year off $51.4 billion in revenue.

Over the next few years, there's good reason to believe that Alimentation is going to convert this historical growth into a dividend paying machine. Buying shares today may be an incredibly rare opportunity to buy tomorrow's next big thing for income investors. Let me show you why.

Alimentation is about to transform for one reason

Today, Alimentation operates a network of 9,943 convenience stores, employing about 105,000 people. The company has stores in every province in Canada, as well as 48 of 50 states in the U.S. It has a leading market share in a majority of its core markets.

In 2012, the company entered European markets. Today, it operates 2,718 stores on the continent, with leading positions in Scandinavia, Ireland, and the Baltics, with a growing presence in Poland.

The management team at Alimentation has also done a terrific job leveraging its brands to create new sources of revenue, which often requires very little capital and risk from the company itself. For example, it now has more than 2,000 licensed stores worldwide that pay to use its brands. This positions Alimentation well to participate in high-growth markets without taking the same capital risk.

Currently, the company has hundreds of licensing agreements in Mexico, Indonesia, China, Hong Kong, Vietnam, Saudi Arabia, and much more.

Today, more than ever, Alimentation is a global brand with direct exposure to nearly every international growth market. And with licensing agreements, the company is able to earn attractive profits with nearly no capital commitments. Over the next few years, expect this trend to continue. After years of growth, Alimentation is finally ready to return gobs of capital to shareholders, rather than expand endlessly.

In both 2018 and early 2019, Alimentation posted a Return on Capital of roughly 12%. While still attractive, those are its lowest levels in five years. With its core markets fairly saturated, it's simply getting more difficult to earn an attractive rate of return on growth initiatives. While its global licensing agreements should help fuel cash flow growth, Alimentation doesn't need to reinvest these earnings to grow the business.

With gobs of cash flow and less attractive growth opportunities, plus increasing earnings from asset-light licensing agreements, anticipate Alimentation's management team to start returning capital quickly.

This dividend could easily grow by 500%

Last quarter, Alimentation earned $0.84 per share. At a simple run-rate, that equates to $3.36 in annual earnings—and that's assuming no growth over the next 12 months.

Today, the dividend accounts for just $0.40 annually. If the company increased the dividend by 500%, it would still account for just 60% of earnings, at $2.00 per share annually.

While you shouldn't expect this to happen overnight, it's likely to happen over the next few years. Falling capital needs combined with growing cash flow and limited opportunities to deploy that capital provide the perfect recipe for big dividend increases. In a few years, don't be surprised if Alimentation is paying an annual 5% dividend. Buying today could give you a once-in-a-lifetime cost basis.

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rvanzo