The Time to Buy This Dividend Income Superstar Is NOW!

Description

Toromont Industries (TSX:TIH) is on a roll. Up 28% year to date through March 5, it's caught the attention of the "overbought" crowd. *The Globe and Mail* runs a weekly article highlighting stocks that are both overbought or oversold. Toromont made the March 1st edition.

Overbought stocks are those that have a relative strength index (RSI) score of 70 or higher. Oversold are those below 30. Toromont clocked in at 77.

The RSI score suggests that it's overbought. Here are two reasons I believe you should buy it anyway.

High return on equity

Fool contributor Brian Pacampara recently discussed why investors ought to be excited by Toromont's return on equity. Consistently in the low-20% range, the company is doing a good job generating a return on its equity capital.

As Pacampara suggests, you want to be careful about how you apply this financial metric. That's because if a company does a lot of share repurchases, it reduces the shareholders' equity on the liabilities side of the balance sheet.

So, for example, if a company earns $1 a share and has $10 per share in shareholders' equity, that's an ROE of 10%. If it repurchases shares and shareholders' equity shrinks by $0.50 to $9.50 a share, the ROE improves to 10.5% without any change in the earnings per share. Of course, buybacks also increase the EPS number, further distorting ROE.

That said, I've recommended Toromont stock for more than two years. I believe it continues to be the real deal.

Raised dividend

There is nothing better for dividend investors than stocks that deliver consistent income and capital appreciation. Toromont does both.

A financial advisor I know in Victoria thinks of dividend payments as rent cheques. It's not an original thought, but it's a good one. Constructing a portfolio of dividend-paying stocks that consistently grow their annual dividend payments is an excellent way to push back against inflation.

Toromont is a Canadian Dividend Aristocrat. This means it's increased its annual dividend for five consecutive years or more. Sure, it can't hold a candle to the American definition of Dividend Aristocrat — 25 consecutive years or more increasing the annual dividend — but it's still a pretty select group.

On February 14, Toromont increased its quarterly dividend by 17.4% to $0.27 a share. Its annual dividend payment of $1.08 yields 1.6%.

That might not seem like a high yield, but it's not the yield that counts, but rather the dividend growth. Toromont has increased its annual dividend for 30 consecutive years, making it the third-longest growth streak in Canada.

Add robust capital appreciation to Toromont's consistent dividend payments, and you get an annualized total return of 10.6% over the past 15 years — 53% higher than the TSX.

Ride the momentum

We're starting to see weakness in the Canadian economy. A slowdown in housing, reduced business investment, and weaker consumer spending are all making their presence felt, and that's got investors very nervous.

As a result, you might be thinking now is not the best time to ride a momentum stock like Toromont. I understand your concern. However, the best time to buy quality stocks like Toromont is when you have money to invest.

The RRSP season has just come and gone. If you have some extra cash in your account beyond the percentage you allocate to cash as a defensive position, Toromont makes absolute sense in spite of the roll it's been on.

Over the long term, it's a winner.

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