A TSX-Exclusive Income Stock With a High Yield and Even Higher Dividend-Growth Potential

Description

You don't need to pay a premium price tag to get a reliable high-income stock. While it's typically a bad idea to go chasing yield with falling knives, there is a certain class of stocks out there that can offer investors to best of both worlds: income and value.

The stocks I'm talking about are former growth darlings that have undergone a reset to growth expectations.

Think of the growth darlings of yesteryear that have run out of steam and have experienced negative adjustments to their share price to account for lower long-term growth expectations. Such "new stalwarts" usually possess the highest dividend yields they've ever had, and if their payout ratios remain healthy, there is a high possibility that the growth-to-stalwart valuation adjustment may have been overdone on the downside.

Such stocks I'm going to refer to as "new dividend stocks" because their yields have swollen by so much such shares are now attractive to dividend investors who may not have been interested in the company in the past because of lower yields and frothier valuations.

Without further ado, meet the TSX's newest dividend darling: **Canadian Tire** (TSX:CTC.A).

It wasn't too long ago that Canadian Tire was seen as a stock that was capable of double-digit annual EPS growth and mid to high single-digit sales growth. Oh, how the times have changed thanks to the rise of digital disruptors in the e-commerce world. While there's no question that e-commerce has taken a bit of stride out of Canadian Tire's step, I believe that Canadian Tire has a robust enough business to overcome the pressure and regain its reputation as a prominent EPS grower.

Historically, Canadian Tire has sported a dividend yield that's been closer to 1.5% (unremarkable for the income savvy). Although Canadian Tire has a reputation for growing its dividend by very generous amounts frequently, no income investor was going to even consider Canadian Tire with its meagre upfront yield.

Today, Canadian Tire's dividend yield (currently at 2.8%) is closer to 3%, a level that's starting to attract the attention of dividend investors. The swollen yield is thanks in part to the company's continued dividend hikes and the recent +23% peak-to-trough fall in shares. The fall was thanks in part to higher capex and muted sales growth thanks to pressures put forth by e-commerce.

Despite the industry headwinds, Canadian Tire has looked fairly decent compared to most other brick-and-mortar players. With a plan to invest in exclusive brands and a commitment to improving the digital and physical store experience, I see Canadian Tire's dividend continuing to grow at a double-digit rate. With efforts made to improve gross margins sustainably, I believe Canadian Tire is a rare opportunity to lock in a bountiful dividend alongside significant dividend growth and potentially massive capital gains.

The stock currently trades at 11.5 times next year's expected earnings, which is low even for a quality, low-growth stalwart like Canadian Tire. You're getting the brick-and-mortar discount with shares today, so if you're looking for growing income at a reasonable price, look no further than Canadian Tire.

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Author
joefrenette