This Dividend Stock Just Hiked its Payouts by 28%

Description

Dividend stocks are great ways for investors to build wealth. Stocks that also increase their payouts over time are even more appealing to investors, because it means that they're earning more on their initial investment. And so, while a yield may not be that high today, years from now the dividend payments may be much more significant. Normally, companies that increase their dividend payments do so in modest amounts like 3%, 5%, or maybe even a little higher.

Although we occasionally see higher rates of increases or even special dividends, it's not likely sustainable, and investors shouldn't expect that to become the norm. However, recently, we saw one company hike its dividend by a whopping 28%. On Monday, **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) announced that it would be raising its dividend payments, significantly. From quarterly payments of $0.65 per share, CP Rail will now pay investors $0.83 every quarter.

Prior to the increase in dividends, CP Rail's stock would have been yielding just 0.87%. That's not going to attract many dividend investors simply because there are so many better options out there when it comes to generating recurring cash flow. After the increase in payments, CP Rail investors will now collect a dividend of 1.1%. Although that's still fairly low, it at least gets the payout up over 1%.

The bigger picture

While a 28% increase in dividends sounds impressive, it's a lot easier to achieve when payouts are low and not something that's going to be repeatable or expected from a higher-yielding stock. In the bigger picture, this is all about the company's commitment to its shareholders, and that's a good sign for investors. In the press release, President and CEO Keith Creel said, "this significant dividend increase represents not only our outstanding performance as a company, but our commitment to creating long-term value for our shareholders."

With four straight years of dividend increases, CP Rail is building a case for dividend investors to stake out a position in the railway operator. The company is looking to have a payout ratio of 25%. As CP Rail continues to produce strong results, investors can expect to see their dividend payments rise as well. And with the economy still strong and CP Rail seeing a lot of growth, the future looks as bright as ever.

In the past year, the stock has climbed more than 25%, and if we stretch that timeframe to five years, returns are around 75%. Those are not bad numbers for what should be a fairly stable stock without much risk. Transporting goods by railway is going to remain a popular option for companies for the foreseeable future, as it is relatively inexpensive and easy for goods to flow get across the country.

Bottom line

CP Rail is trading near its 52-week high, but over the long term, this stock could still produce great returns for investors. And if it keeps raising dividend payments, it'll be even easier to justify keeping it in your portfolio. Although the stock's dividend payment may not be high today, when you combine them with the good returns that the stock has produced over the years and might continue producing, investors could have a solid stock to build around for years to come.

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djagielski