Income Lovers: This Company Just Hiked its Dividend by 39%

Description

Dividend-growth investing is one of the most powerful ways to turn a pile of capital into a consistent income stream. Dividends are taxed efficiently, they're steady even during periods of market weakness, and the growth aspect of the strategy ensures an investor will always keep ahead of inflation.

In other words, it's the perfect retirement strategy.

By now you've likely heard of all the usual dividend-growth names. Canada's banks are well known for their record of increasing their payouts annually. The telecoms have also been fantastic at this, and so have Canada's top utilities. Heck, you probably already own most of these stocks.

I like to supplement the usual suspects with a few under-the-radar names — the kinds of companies that are either out of favour with the rest of the market, thus offering succulent dividend yields, or companies that are quietly becoming great dividend stocks without most people noticing.

Molson Coors Brewing (TSX:TPX.B)(NYSE:TAP) checks off both of those boxes; shares are trading close to a 52-week low, despite recently announcing a fantastic dividend increase. Let's take a closer look at this opportunity.

How big?

Molson Coors management has been hinting about hiking the dividend for months now, and many investors ignored the message.

The company's balance sheet is still a little stretched after it acquired the remaining stake of its partnership with SABMiller. Molson Coors got the 42% of the company it didn't already own but had to pay US$12 billion for the privilege.

Since this transaction closed in 2017, Molson Coors has been all about getting its balance sheet under control. It embarked on an ambitious cost-cutting plan, which has already seen it eliminate US$700 million in ongoing costs annually. Another cost-cutting plan will look to save an additional US$450 million between 2020 and 2022.

After peaking at more than five times EBITDA, the company's debt is finally getting under control. It paid back US$300 million in debt during the first quarter alone and should be able to pay back approximately US$1 billion in fiscal 2019. This should be enough to get its debt-to-EBITDA ratio close to three times by the end of the year.

In other words, the debt is now under control.

The board of directors has been promising to increase the dividend in a big way once this was less of an issue, and they delivered on this promise last week.

The company announced the quarterly dividend will increase from US$0.41 per share all the way up to US$0.57 per share. That's a jump of 39%. You don't see that very often, especially for a stock that yielded close to 3% before the rise.

Once we convert back to Canadian dollars, we have a payout for shareholders of $0.75 per share each quarter. That works out to a 4% yield on the TSX-listed shares.

I doubt Molson Coors is finished with the dividend increases, either. The company should generate approximately $1.8 billion in free cash flow in 2019. Even this increased dividend should only account for about 40% of free cash flow. It can easily afford to hike the dividend a few more times and still make a sizable dent in its debt.

Finally, investors are getting a cheap stock that should appreciate nicely. Shares are trading at approximately nine times free cash flow and under book value. This is a massive discount when compared to other publicly traded beer giants. Shares could easily double from here.

The bottom line

Molson Coors should be on every value investor's buy list. The company owns great brands, is doing a nice job of getting its debt situation under control, and is insanely cheap when compared to peers. The dividend increase is just icing on the cake.

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