Lock-in This Special $1.45/share Dividend by September 26

Description

If dividends are great then shouldn't special dividends be, well, special?

I believe so, especially if they're paid by fantastic Canadian companies that should have a permanent place in your portfolio regardless of their dividend policy. Owning great companies is a good thing. It's an *extra* good thing if they decide to periodically return extra capital to shareholders.

Let's check out a compelling special dividend situation that's unfolding today — a short-term situation that will give investors a nice short-term dividend as well as a growing regular payout yielding 3.9%.

A great investment

First, let's talk about the overall investment thesis for **Genworth MI Canada Inc.** (TSX:MIC).

Genworth is in a unique industry. It really only has one competitor in the mortgage default insurance sector, the federal government. Borrowers who put less than 20% down on the value of a home loan are mandated to get mortgage default insurance from either CMHC or Genworth — or they're not getting the mortgage.

CMHC makes the rules of the market, dictating the insurance premium rates that increase as the mortgage's loan-to-value ratio goes up. In other words, risky borrowers pay more for insurance.

CHMC has traditionally been a profitable branch of the government, meaning that it's a net contributor to Canadian finances. Its earnings are used to encourage affordable housing and other real estate-related social programs.

If CMHC is consistently profitable and Genworth follows the same rules, it ensures that our investment opportunity is consistently profitable.

Genworth has nicely grown earnings over the last decade despite dealing with the major handicap of declining interest rates, which impacts the long-term return on its invested portfolio.

Remember, like every insurance company, Genworth invests its premiums in secure assets like government bonds. As rates have gone down, these investment returns have diminished, yet Genworth's earnings per share have increased from $3.31 per share in 2009 to more than $5 per share in 2018.

Genworth has done an excellent job growing book value per share, too. At the end of 2009, the company's book value was just over $20 per share. At the end of its most recent quarter, book value exceeded $45 per share. Remember, the company paid generous dividends — dividends that increased each and every year.

In short, Genworth is a wonderful company in one of the best niche parts of the insurance business, and investors now have a compelling reason to get in soon.

The special situation

Periodically, Genworth pays out special dividends. It last paid out $0.43 per share as a special dividend back in 2014, and before that paid a $0.50 per share special dividend back in 2011.

The company recently announced that it would go down the special dividend route again, this time paying out $1.45 per share to shareholders as of September 26, which will then be paid out on October 11.

Remember, Genworth already offers a 3.9% yield. The special dividend works out to a 2.7% yield. This means an investment made in the company before September 26 will give an investor a 6.6% return in the first year alone plus any capital gains on the stock.

It's easy to argue Genworth shares are undervalued, too. The stock trades at just 10 times trailing earnings and only a small premium above book value. It would make a great acquisition for another insurance company.

Remember, **Brookfield Business Partners** just bought a controlling stake in Genworth from the former U.S. parent. That company could easily gobble up the whole thing.

The bottom line

If you like dividends, Genworth Canada just became a very compelling buy.

But don't delay. You've got less than two weeks left to lock in your special dividend. You don't want to risk shares marching higher in the meantime, either.

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