Here’s How Much You Could Be Making From Canadian Tire’s (TSX:CTC.A) Dividend in 5 Years

Description

Dividend-growth stocks offer investors a great way to earn more on their initial investments over time. As long as you invest in a stock that has a strong business with good financials and a reputation for growing its payouts, you may be in a good position to continue to benefit from rising dividend payments. One stock that has been growing its dividend at a high rate in recent years is **Canadian Tire** (TSX:CTC.A).

Currently, the stock pays a decent dividend yielding 3.1% per year. There are higher payouts that investors can earn out there today, but what makes Canadian Tire’s stock particularly attractive is the rate at which its dividend has grown in recent years. It recently hiked its dividend payments from $1.0375 every quarter to $1.1375 for an increase of 9.6%. Dividend hikes near 10% are always impressive, especially when they’ve been maintained over a longer period of time.

Five years ago, Canadian Tire was paying its shareholders $0.525 every quarter. Since then, those payouts have more than doubled and are up a total of 117%. That averages out to an annual dividend increase of 16.7%. However, judging by its latest increase, which was under 10%, and the dividend yield now being more than 3%, it’s less likely that investors will see those higher rate hikes in the future.

How much could investors be making in five years?

If you invest $10,000 in Canadian Tire stock today, that would be enough to own about 70 shares, meaning that you’d be earning about $319 a year in dividend income. In order to project how much that dividend income will be in five years, we need to first forecast what the rate hikes will be. With Canadian Tire reducing its rate of growth, a dividend increase may average a more modest 9% over the next five years. If that happens, then over the course of five years, dividend payments will rise by approximately 54%. That would increase the payouts from $1.1375 to $1.75.

With 70 shares still held, you could be making $490 a year in dividend income. You would then be earning 4.9% of your original investment back in the form of dividends compared to the 3.1% yield that it offers today. A fast-growing dividend stock like Canadian Tire could quickly accelerate your payouts and make them look a whole lot stronger in a relatively short amount of time. And the longer that Canadian Tire raises its dividends payments, the more that effective dividend yield will rise.

Is Canadian Tire a good investment today?

Dividends aside, investors should always consider the merits of investing in a stock on its own. If the business model is not solid, or its future may be questionable, it will not matter how good of a dividend the stock offers if it could be headed for trouble. In Canadian Tire's case, the company still looks very strong, despite a challenging retail environment. And its recent acquisition of Party City could give the company another gear to help increase its sales with. Although Canadian Tire is far from a risk-free investment, it's one of the better retail stocks to invest in today.

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