Yield Alert: This Growth Stock Is Ready to Pay Big Dividends

Description

Dividend stocks can be an investor's best friend. These investments deliver a regular stream of cash, giving you full power over the company's earnings.

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Yet income investors often make a major mistake: they focus on *yesterday's* dividend stocks. Unfortunately, yesterday's best dividend stocks don't always correlate with *tomorrow's* best dividend stocks.

Think of how silly this approach is by comparing it to growth stocks. Would you rather find a company that grew rapidly over the *previous* decade, or a company that is set to grow rapidly over the *next* decade? Dividend stocks are the same. Instead of looking for juicy yields today, take the time to discover which stocks will be dividend superstars in the future.

Finding a high-paying dividend stock before it achieves this status has multiple benefits. The first is price. The market's best-known dividend payers often have premiums attached to their valuations, lowering your potential yield. The second benefit is growth. Capturing a dividend as it grows is often more lucrative that securing a more mature payout.

Here's the problem: spotting a Dividend Aristocrat in advance can take a tonne of research and vetting. We've done the work for you, identifying Canada's best dividend stock of the future.

Building a giant

Boyd Group Income Fund (TSX:BYD.UN) has been one of the best-performing Canadian growth stocks in recent memory. Since 2006, shares have risen by more than 15,000%. A $5,000 investment would have become nearly $800,000 in just 13 years. This growth was delivered thanks to a fairly boring business model.

The car collision industry across North America is very fragmented. Most repair shops are independently owned and operated. This prevents them from the benefits of scale and eliminates exit opportunities, as there aren't many buyers for a single repair shop in rural Alberta.

Boyd has taken advantage of these market dynamics to become an industry consolidator. For years, it has purchased collision centres across the U.S. and Canada, oftentimes as the only bidder. After securing an attractive price, it can then remove most of the back office expenses, plugging the location into its larger network.

Converting to income

Boyd has used this growth strategy over and over for years to great success. Today, it has 130 locations in Canada and 537 locations in the United States. There's still room for growth, but it won't be as rapid as the past. Meanwhile, its current portfolio is generating more free cash flow than ever.

Boyd has already begun its transition from growth to income stock, instituting a small 0.3% dividend. Importantly, this dividend only constitutes 6.8% of earnings. More mature dividend stocks have payout ratios between 50% and 70%.

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If Boyd were to pay out half of its earnings, it could immediately fund a 2.2% dividend. At 70% of earnings, its dividend would be 3.1%. These numbers aren't terribly impressive, but it's important to consider that Boyd is still growing earnings by 30% per year.

Expect 2020 to be the first of many sizable dividend increases for Boyd. Over the next several years, the dividend could easily reach 5% while still accounting for a minority of earnings. Long term, the payout could reach 10% or more based on the current cost basis.

No matter how you slice it, this is a monster dividend stock in the making. Now is your chance to capitalize ahead of the market.

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2019/12/16
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