Income Investors: This Iconic Canadian Dividend Stock Just Became Way Too Cheap to Ignore

Description

Buying the dip is a strategy that most associate with getting quick capital gains in the event of an upside correction following an overblown sell-off.

What few investors speak of is the opportunity to "lock-in" a higher-than-average dividend yield on dividend stocks that take a dip into oversold territory. Sure, it's nice to make a quick buck in a correction to the upside, but for long-term, income-oriented investors, it's more worthwhile to get a higher yield for a lower price.

As you may know, as shares depreciate in price, the dividend yield appreciates by a proportional amount and vice versa. Depending on the magnitude of a dip, a dividend stock can yield substantially more than its mean yield.

Even for dividend stocks with modest dips and marginally higher yields, a dividend hike can quickly send the stock's yield well above mean levels, as management attempts to prove its resilience to investors through challenging times.

Dividend hikes during times of hardship are nothing new for the Dividend Aristocrats, which have been raising their dividends through the best and worst of times over the last 25 years. Some challenged firms may desire to hike their dividends at the higher end of expected guidance, despite issues to get the yield propped up that much higher in a decline. Call it "bribing" investors with income, if you will.

Consider **Canadian Tire** (TSX:CTC.A), an iconic Canadian retailer that's been dealing with a more challenging landscape and short-sellers amid its efforts to adapt to the new age of retail. The shorts made their allegations and management has been shrugging them off, with the hopes that investors will follow the financials themselves.

Retail is a tough arena to compete in for the brick-and-mortar behemoths of yesteryear. Canadian Tire hasn't been the quickest to keep up with rising competitive pressures from the realm of the digital. Although management has fumbled the ball with questionable acquisitions and "unearned" dividend hikes, I think short-seller allegations of questionable accounting practices are taking things a step too far.

As with many short attacks, a short thesis may have some false allegations sprinkled in. And in the case of Canadian Tire, I think the allegations have scared most of the iconic retailers out of the stock over the past year. The company recently recorded an impressive quarterly profit beat thanks to its credit card business — a business that was a major sore spot through the eyes of shorts.

“Financial services segment performance was outstanding. The credit metrics are still definitely strong.” said CFO Dean McCann.

The shorts were proven wrong with the credit card business … for now. But they’re far from being squeezed from the stock.

Foolish takeaway

While shares of Canadian Tire still have more than their fair share of baggage, I think longer-term income investors have an opportunity to bag a slightly higher yield relative to historical averages, even after the stock’s post-earnings pop. At the time of writing, the stock yields 3.1% and given how shareholder friendly management has been with its capital return program, I wouldn’t be surprised to see another generous dividend hike over the next year.

The stock trades at 11.8 times trailing earnings and 0.6 times sales. That’s bottom-of-the-barrel pricing, and should the domestic economy recover from its funk while management looks to further invest in digital initiatives and improve upon the in-store experience, the window of opportunity to get a yield north of 3% may be drawing to a close.

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1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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