This Canadian Dividend Stock Is Ready to Quadruple Its Payout!

Description

Dividends are cold hard cash that you receive simply for owning a certain stock. You can easily earn 3% to 5% each year on your money by owning such companies.

Many dividend investors believe that more is better. Why settle for a 3% payout when you can get 5%? While this has some validity, ignoring low-yield stocks is a mistake.

It's counter-intuitive, but you can actually make significantly more money by investing in stocks that have smaller dividends. The bet is that these payouts will increase over time. This is called a *dividend growth* strategy.

Here's how it works.

A company that pays a 5% dividend is likely a more mature business — one that doesn't need to retain a bunch of cash for reinvestment, so it opts to pay the excess to shareholders. While it's not always the case, these businesses aren't growing at breakneck speeds.

Consider a company like **Boyd Group Income Fund** (TSX:BYD.UN), which offers a yield of just 0.3%. What kind of income investor would ever invest in such a small payout? One who likes rapid growth, that's who. Since 2003, shares have risen by more than 15,000%.

Over that time, the **S&P/TSX Composite Index** increased by only 50%. Getting a small dividend was merely a bonus for investors.

Rather than a paying a massive dividend, Boyd opted to keep the money and reinvest in high-growth opportunities. This strategy has worked out wonderfully for shareholders. I doubt any of them are complaining about the low yield.

Over the next few years, this stock could be the best of *both* worlds, offering continued growth, but also a higher and higher dividend. If you want to profit from a dividend growth strategy, now's your chance.

Ready to transform

Boyd is one of the most successful growth stocks in Canadian history, even if you've never heard of it.

More than a decade ago, the company was founded to roll-up the collision repair market. Its founder noticed that the industry was incredibly fragmented.

Few competitors controlled more than a few percent of the market. Most shops were owned by small, independent owners, with few opportunities to sell the business as they approached retirement.

Boyd was created as an industry consolidator. Thousands of small shops were happy to have an exit opportunity, even if that meant selling at depressed prices.

Boyd would take over, infuse the business with a little cash to increase revenue opportunities, and then strip out any redundant costs to improve profitability. All it needed to do was rinse and repeat this strategy over and over.

As the stock price indicates, this strategy has been incredibly successful. After years of growth, however, Boyd's top-line numbers should start to slow.

After all, going from 100 stores to 200 is much easier than going from 1,000 to 2,000. Growth should still come in at double-digit annual rates, but with less need for capital, the company can devote more resources to the dividend.

The current dividend takes up just 7% of earnings. Over the next 12 to 24 months, don't be surprised to see the payout *quadruple* in value. That would still comprise just 28% of profits, but offer a 1.2% yield on today's cost. While that's still not overly-impressive, the share price gains should keep you company.

Boyd is still growing earnings by 30% per year. In five years, if the stock paid out half of its earning, the yield would be 7.8% on today's cost!

By that time, increases in the stock price may give new investors a paltry yield, maybe 2% or 3%. By investing early, you can lock in an incredible yield-on-cost. That's the power of dividend growth investing.

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