



This Secret Dividend Stock Is the Real Deal

Description

Dividend stocks can easily provide you with a stream of [consistent cash](#) that you can use as you wish. The “yield” of a dividend stock — that is, how much you earn in cash income — typically ranges between 3% and 5%. That’s a lot better than what you can achieve with a bank account.

When it comes to yield, it’s easy to think that bigger is better. Why settle for a 3% return when you could get 5%? While this type of thinking isn’t completely wrong, it does prevent you from seeing hidden dividend bargains that offer huge upside potential.

Boyd Group Income Fund (TSX:BYD.UN) is a prime example. The stock only pays a 0.3% dividend, which takes it off the radar of nearly every dividend investor. If you look closely, however, this is a dividend all-star in the making. Buying early can double or triple your ultimate return.

A special stock

Boyd Group is clearly a special stock. Since 2003, shares have exploded higher by more than 10,000%! What’s the secret?

Boyd Group is one of the largest operators of collision repair shops in North America. This may be a boring business, but boy does it pay. The market is estimated at \$39.4 billion, yet two-thirds of the industry consists of single, independently owned shops. That’s the opportunity that Boyd is tapping.

Out of the 32,000 collision repair shops in the U.S. and 4,560 shops in Canada, 83% are independent stores. Roughly 60% are single locations, with another 10% being small franchises. Only 17% of shops are owned by large dealers like Boyd.

With 682 locations, Boyd controls only few percentage points of the market. Believe it or not, this makes the company an industry behemoth. With such a fragmented landscape, Boyd can buy up competitors at a steep discount given that there’s scant competition for bids.

With few exit opportunities, many of these independent shops are simply happy to exit the industry at a

small profit, even if that means giving Boyd the deal of the century.

After an acquisition, Boyd will infuse some cash to increase revenues, eventually eliminating overlapping back office expenses to boost profitability. The company can make back its cash outlay in as little as one or two years.

With so much of the market still fragmented, Boyd has simply repeated this acquisition strategy time and time again, leading to spectacular returns for shareholders.

Here comes the money

This sounds like a growth story, doesn't it? Well, it is. Boyd will continue to grow earnings at double-digit rates for years to come, especially given its business model is particularly recession-resistant.

That's why the stock pays a 0.3% dividend, which constitutes just 6% of earnings. Management would rather reinvest the money at gang buster rates than pay it out to shareholders.

However, there's no denying that Boyd's growth will slow over time. The pie is only so big, and every month that goes by, Boyd has fewer potential competitors to acquire. As this shift happens, expect more capital to be dedicated to the dividend.

At a 50% payout ratio, the stock would already yield a 2.1%. Don't expect that to occur overnight, but over the few years, I'd be surprised if the payout ratio doesn't approach that figure.

Factoring in payout ratio increases and expected EPS growth, this "low yield" stock could deliver 7% annual dividends within five years, based on today's cost basis.

That's a pretty good deal when you factor in share price growth. In order to capitalize, you need to put money to work *now*. By waiting for the dividend to rise first, you'll likely pay a higher price per share, reducing your eventual yield.

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