1 Small Income Fund Growing Its Dividends 2x

Description

Dividend growth is not the sole providence of Dividend Aristocrats. Many companies and funds grow their dividends occasionally, but maintaining a growth streak of five years or more requires an income consistency that not all companies possess. So even if a company is raising its dividend by as much as 100%, it's no guarantee of future growth or even sustenance of dividends.

And in the case of **Keg Royalties Income Fund** (TSX:KEG.UN), a Richmond-based fund with a market capitalization of just 167 million, the two times dividend growth is a relatively small step toward recovery.

The fund

Keg Fund owns the properties and trademarks of Keg restaurants. The restaurant chain has been around for half a century, and it owns about 100 locations in North America (steak houses and bars). Thanks to the focus on fine dining, the restaurants, and by extension, the fund suffered a lot because of the pandemic. The stock dropped almost 60%, and even though it's on its way to recovery, it's not quite there yet.

Not all food businesses suffered during the pandemic. Many fast-food chains that could leverage the power of home deliveries thrived. But fine dining suffered. Most locations were closed off, and even when restrictions were relatively lenient, people avoided restaurants or indoor spaces where the chances of catching the virus were relatively high.

In the second quarter of 2020, the sales were down as much as 88%. But now that the economy is reopening, the restaurants might see the numbers rising up again. And one clue to this potentially positive change is in the fund's distribution policy.

The stock and dividends

The stock reached its peak around 2017. It grew about 280% between 2008 and 2017. But since then, the stock was static at best and slightly slid down at its worst, that is until the market crashed. But the dividends suffered the worst of the revenues.

Until March 2020, the fund offered dividends of $0.0946 per share. The company decided to cut the distributions down to a manageable number in April and introduced a 63% reduction to bring the payouts down to $0.035.

Reducing the payouts to one-third of its original number might seem aggressive, but it was in-line or even relatively generous if you consider the drop in revenues. But the company has decided to recover its dividends in line with its own financial recovery.

Its July dividends, payable at the end of the month, are going to be $0.07 per share, that is, 100% growth from the $0.035 payouts.

Foolish takeaway

The small fund is recovering from its low valuation as well. The stock has grown over 60% in the past 12 months, and now that the payouts are more generous, the fund is offering a relatively juicer yield of 5.7%.

The yield is enough to earn you $570 a year if you invest $10,000 in the fund right now. And you might be able to see some capital appreciation as well.

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Date
2025/08/19
Date Created

2021/07/22
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