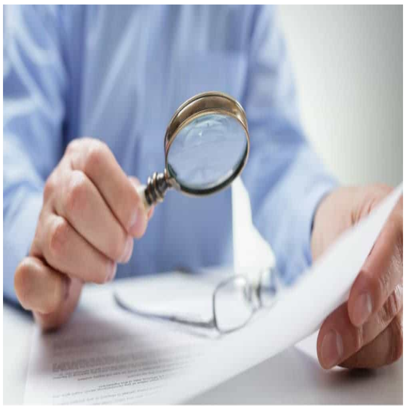

High Inflation Is Good for These 3 Dividend Stocks

Description

How frustrating it is to pay more over time for the same items. Inflation eats away our purchasing power. Our central bank targets a long-term inflation rate of about 2%. However, this year, we're experiencing higher inflation than normal. The recent inflation is about 4.4%, whereas the 10-year inflation rate is approximately 1.7%, according to this Bank of Canada inflation calculator.

Wouldn't it be wonderful if you could grow your money on high inflation? You can! Here are three dividend stocks that should benefit from high inflation.

This food stock benefits from high inflation

Premium Brands (TSX:PBH), as the name implies, owns a broad range of premium brands in packaged foods. It manufactures and distributes specialty foods. Acquisitions have been a part of its growth plan. The company's five-year return on equity (ROE) of about 12.5% is decent, suggesting a good allocation of capital. Notably, its ROE dropped to 8.9% and 6.3% in 2019 and 2020. It appears the market expects a strong rebound in this important metric.

The growth stock has made a comeback doubling from the depths of the pandemic market crash last year. The rally is supported by key financial metrics and valuation expansion from resumed growth. Year to date, the packaged foods company experienced solid revenue growth of 19% to $3.6 billion, adjusted EBITDA growth of 41% to $317.3 million, and adjusted earnings-per-share growth of 50% to $3.28.

Inflation will directly reflect in higher food prices. Once Premium Brands increases the prices of its premium brands, only higher prices will follow in future years from inflation. We simply have accepted inflation as a part of normal life.

The 1.9%-yield dividend stock has increased its dividend every year since 2013. This trend is likely to continue with the help of inflation. Its trailing-12-month payout ratio was 44% of free cash flow, down from 49% a year ago.

Alimentation Couche-Tard poised for solid returns

People crunch for time or love convenience would enjoy shopping at **Alimentation Couche-Tard's** (TSX:ATD.B) convenience stores. Couche-Tard has about 14,200 locations across its network. Many sites also offer road transportation fuel. Higher energy prices and inflation should translate to higher revenues.

Fiscal 2021, which ended in April, saw Couche-Tard's merchandise and services revenue rising 8.2% to US$15.9 billion. Correspondingly, gross profit rose 7% to US$5.3 billion. Its same-store-sales growth across the U.S., Europe, and Canada were higher than inflation at 5.6%, 6.1%, and 9.5%, respectively.

Couche-Tard is a very well run company with a long-term track record of ROEs of more than 20%. Its five-year ROE is approximately 23%. The Canadian Dividend Aristocrat's 15-year dividend-growth rate of 27% is incredible. Its five-year dividend-growth rate of approximately 21% remains impressive. Interested investors would want to be on the lookout for Couche-Tard's earnings results next week.

High inflation boosts this dividend stock's cash flow

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) owns a diverse range of long-life, quality infrastructure assets around the globe. About 90% of its cash flow is regulated or contracted and roughly 70% is indexed to inflation. This means the higher the inflation, the faster its cash flow can grow!

In the last quarter, the utility demonstrated the strength of its portfolio via organic growth of 9%. Volume recovery from economic re-openings and its asset-rotation strategy helped contribute to the growth. Management supports a cash distribution of 5-9% per year. Currently, the stock yields almost 3.5%.

Year to date, the quality utility witnessed its funds from operations per unit rising 17% to US$2.66 versus a year ago. After the Inter Pipeline acquisition, its payout ratio is about 68%, which is close to the high end of its target payout ratio range of 60-70%. So, it's reasonable to expect a healthy dividend increase of 5-7% early next year.

Just last week, the dividend stock raised US$1 billion through a bought deal equity offering that priced units at US$58.65 per share. The stock appears to be fairly valued.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:PBH (Premium Brands Holdings Corporation)

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