Buy Alert: TSX Operator Hikes Dividend by 8% After Profit Pops 22%

Description

The **Toronto Stock Exchange** sputtered in December 2021 and missed matching its best return of +30.69% in 2009, the post-financial crisis year. Nevertheless, it was a profitable year for investors, given the 21.74% overall gain. The Index didn't lose in 2020, although the return dropped to 2.17% compared with the 19.13% in 2019.

If you're looking for a value stock with visible growth potential, the operator of global markets, including the TSX, deserves a second look. Because of the strong finish to 2021, **TMX Group** (TSX:X) announced on February 8, 2022, an 8% hike of its quarterly dividend effective March 11, 2022.

The group's CEO, John Mckenzie, said, "TMX's excellent 2021 results, highlighted by double-digit revenue and earnings per share growth, reflect an extraordinary year for clients raising capital on our markets and strength across our business model." Besides the potential price appreciation in the coming quarters, there's plenty of room for dividend growth.

Financial highlights

In Q4 2021, revenue and net income increased 15% and 22% versus Q4 2020. For the full year 2021, the $7.25 billion company reported top- and bottom-line growth of 13% and 21%, respectively, compared with the full year 2020. Notably, cash from operating activities increased 7% year over year to $441.4 million.

TMX Group's CFO David Arnold said, "We were pleased to deliver very strong financial results this past quarter." The growth was solid notwithstanding the slight drop in equities and fixed-income trading revenue.

Arnold added the mid-teens revenue growth resulted in a 24% growth in diluted earnings and adjusted diluted earnings per share. He further said, "Given our continued strong performance, our board increased the quarterly dividend by 8% to 83 cents per common share, consistent with our targeted payout range."

At $129.85 per share, current investors enjoy a 1.2% year-to-date gain on top of the 2.61% dividend yield. Based on market analysts' forecasts, the stock could appreciate between 13.6% ($146.86) and 19.9% ($155) in 12 months.

Best year for the TMX

McKenzie confirmed that 2021 was the best year on record for the TMX. The TSX raised $60 billion, and the Capital Formation business segment helped many companies gain access to capital. Besides the favourable financing conditions, most of the new listings, especially tech issuance, were high-quality companies, McKenzie said.

In the COVID year, capital flow into energy companies, whether junior and senior, were near zero until commodity prices started rising. While the technology sector underperformed last year or off its peak, the stocks remained historically strong.

McKenzie promised, "As we move forward in 2022, TMX is focused on building our great markets even stronger." The company will innovate and adapt to meet the evolving needs of the marketplace. It should accelerate its global growth strategy.

Key takeaway

The key takeaway is that you'd be investing in a defensive, financial business. Based on recent data, the TSX's trading volume in January 2022 is 15.1% lower than in the same month in 2021. However, expect it to accelerate as the year progresses. Some market analysts say the stock is way undervalued for the quality. If the market stays strong, TMX has a strong tailwind.

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cliew