1 Dependable Stock Just Hiked its Dividend

Description

A dividend hike is an unexpected treat when it's from a regular dividend stock. You might have invested in that stock for its capital-appreciation potential or simply because you could lock in a decent yield, and a dividend increase makes the investment even more worthwhile.

However, a dividend increase from an aristocrat is almost a necessity. It's practically the reason most investors buy an aristocrat in the first place, and if it *doesn't* hike its payouts, even for a year, its investors can become reasonably restless since the company is not keeping up with the pattern. And when an aristocrat raises its dividends, it's an endorsement that the investor made the right choice.

And one such right choice is **Loblaw Companies** (TSX:L).

The grocery giant of Canada

Loblaw Companies is the undisputed leader when it comes to grocery stores in Canada. This Brampton-based company has been serving Canadians for more than a century and has established a massive network of grocery stores and pharmacies (the other forte of the company). There are 1,300 locations under the banner of Shoppers Drug Mart.

The overall portfolio of Loblaw is made up of about 2,500 stores in Canada, and almost nine out of every 10 Canadians live within a 10-kilometre radius of one of Loblaw's stores. This powerful reach/presence is one of the core strengths of Loblaw.

The business model also translates quite nicely into dividend sustainability. Since it's a grocery and pharmacy company, the probability of its revenues going down in harsh market conditions is quite low.

This means that even when many other businesses find it financially challenging to sustain their payouts, Loblaw might have little trouble in this regard. Its 2020 payout ratio of 45%, which is just a minor rise from the 2019 ratio, is an endorsement of this strength.

The dividend

The company doesn't score a lot of points when it comes to the yield. It's currently offering an incredibly modest yield of 1.4%. One reason behind this low number is the incredible post-pandemic bullish phase (which is still going strong), which has pushed the value of the company up by roughly 59% from its pre-pandemic valuation.

But what the company lacks in yield, it makes up for in dividend increases. Since 2018, the company has raised its payouts from $0.27 per share to $0.4050 — a substantial increase for such a short span. The dividend hike from the last quarter alone is roughly 11%, making it much more potent than simply an increase to stay ahead of the inflation.

The company has been growing its payouts for almost a decade, and considering its finances and an evergreen business model, it's unlikely to cut its payouts anytime soon.

Foolish takeaway

When you are choosing a dividend stock to hold for long in your portfolio, yield is just one of the variables to consider, albeit a very important one. Dividend growth is another compelling reason to choose a stock over another, especially if you want your dividend income to outpace inflation.

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