Earn Passive Income for Years With This Dividend Aristocrat

Description

Dividend stocks that offer nice yields with dividends that are sustainable provide passive income. To add icing to the cake, there are Canadian Dividend Aristocrats that have increased their dividends for at least five consecutive years.

Here's one Canadian Dividend Aristocrat that's suitable for passive income — **Canadian Tire** (TSX:CTC.A).

Recent business performance

So far, Canadian Tire has reported its business performance for the first three quarters of the year. (The fourth-quarter results won't be released until February 16.) What the year-to-date (YTD) results are telling us is that the company is still able to grow its sales but at lower margins.

Retail sales rose 7% year over year (YOY) to $13.5 billion YTD. Revenue rose 12% to $12.5 billion. However, the gross margin only increased 5% to $4.1 billion, as the gross margin rate declined by 2.15% to 32.7%. The business also had a 9% increase in selling, general, and administrative expenses to $3 billion. Ultimately, net income dropped 14% to $620 million. The diluted earnings per share fell 15% in the period to $8.59, as the company allocated some capital to share buybacks.

Apparently, Canadian Tire primarily sells durable goods, which are not as popular during recessionary times. This is partly why the stock has fallen approximately 22% YTD. Economists expect a recession in the new year.

Dividend safety

What's worthy of celebration is that Canadian Tire's dividend appears to be safe. Its trailing 12-month (TTM) payout ratio is less than 30% of net income. Additionally, it last reported on its balance sheet $4.8 billion of retained earnings, which can act as an additional buffer to protect the dividend.

Canadian Tire just raised its dividend by 6.2%. Actually, it equates to a TTM increase of 30% because of the superb results in 2021 from the post-pandemic run-up after the 2020 pandemic year. For reference, the dividend stock has increased its dividend for about 11 consecutive years with a 10-year dividend-growth rate of 15.6%.

Other than being in the financial position to raise its dividend, it's also planning to allocate $500-$700 million to buy back its common stock, which would equate to about 7.7% of its outstanding shares based on the $600-million midpoint and recent stock quotation.

Dividend stock valuation is attractive

Besides dividend safety, investors should also seek to protect their principal. One way of doing so is to buy stocks when they trade at low valuations. At $140.53 per share at writing, the Canadian retail stock yields 4.9%. This is attractive passive income, given that Canadian Tire has the ability to grow its payout. At this quotation, the TSX stock trades at 8.2 times earnings, which is 37% cheaper than its normal historical levels. Analysts estimate it trades at a discount of about 24% from the consensus 12-month price target.

The Foolish investor takeaway

It may be counterintuitive to buy Canadian Tire stock now. And I may be a few months to a year early on the recommendation, but the retailer offers a juicy dividend yield that appears sustainable. More importantly, the dividend stock trades at a low valuation, which allows for valuation expansion on an improvement in the economic environment.

The stock maintains a low payout ratio, so it can keep paying a healthy and increasing dividend through market cycles. It's a good value now for patient investors with an investment horizon of at least three to five years.

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