Equity Income Guided Portfolio

Quarterly report

Wealth Management
Dominion Securities

December 2, 2024 | Portfolio Advisory Group – Equities

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All values in Canadian dollars and priced as of Nov. 30, 2024, market close, unless otherwise noted.

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Differing fortunes

U.S. economy continues to surge while Canada's is struggling; the Bank of Canada will likely cut rates more aggressively than the Fed

Canada's economy continues to show signs of slowing and the federal government's plan to reduce the number of permanent residents will add a new headwind to growth, in our view. However, we believe slower population growth in Canada over the next three years should help reduce housing cost pressures and overall inflation and set the way for larger interest rate cuts from the Bank of Canada (BoC).

According to RBC Economics, Canada's economy continues to underperform, with a below-trend growth rate and a rising unemployment rate. As inflation is already within the BoC's target range and expected by policymakers to head lower still, we see little in the way to stop the central bank from implementing faster and larger rate cuts. As a result, RBC Economics expects another 50 basis point (bps) reduction in the overnight rate in December before a return to slower 25 bps cuts at every BoC policy meeting until the overnight rate reaches 2% in July 2025.

We continue to believe that the Canadian economy will feel the pain of higher mortgage payments. The recent drop in Canadian bond yields will help borrowers with mortgages that renew in 2025 and 2026, but we expect that the higher payments will negatively impact consumer discretionary spending and economic growth.

U.S. President-elect Donald Trump's proposed 25% tariff on goods entering the U.S. from its USMCA partners—Canada and Mexico—introduces further uncertainty to the outlook. While the ultimate imposition and duration of these proposed tariffs will remain matters of considerable debate, we believe it is reasonable to conclude that there will be some trade friction between the neighbours over the coming years.

Lower oil prices are negative for the Canadian economy, as the country exports approximately four million barrels of oil per day. The recent weakness in global demand has caused oil prices to trend around US$70 per barrel and, as a result, we expect to see lower dividend growth from the oil producers. We have previously noted a slowdown in dividend growth expectations from management teams in all sectors, and have striven to balance the Portfolio between higher-dividend-yielding stocks and those that we think have the potential to increase their dividends over the near term. We believe that 23 of the companies in the Portfolio will increase their dividends in 2025, with average dividend growth of 5.5%.

South of the border, the U.S. economy continues to be supported by a stronger labour market, but we are seeing signs that consumers are slowing purchases of big-ticket items. However, the U.S. economic backdrop has been resilient and inflation remains sticky, which does not justify, in our opinion, a repeat of the outsized 50 bps rate cut that was implemented by the U.S. Federal Reserve in September. RBC Economics believes the Fed continues to signal that more rate cuts are likely coming, but the timing and end destination remain uncertain. RBC Economics' base-case assumption calls for two additional 25 bps cuts in both December and January before pausing at a 4% to 4.25% range for the rest of 2025, with interest rates likely needing to stay at a relatively high level to offset the inflationary impact of an unusually large U.S. government budget deficit.

As a result of the different economic paths we foresee for Canada and the U.S., and the divergence of the respective central bank rate-cutting regimes, we expect the Canadian dollar will remain under pressure and could drop into the $1.43 range. As such, we are maintaining our holdings in companies that have operations in the U.S. and international markets to offset the risk of a slowing Canadian economy and to benefit from a strong U.S. dollar.

In our opinion, a falling interest rate environment should benefit dividend portfolios, but global investors may seek greater exposure to the higher bond yields in the U.S., compared to the lower bond yields in Canada. Should interest rates drop, we expect the traditional defensive sectors (Consumer Staples, Utilities, Communication Services, and Real Estate) to outperform the broader S&P/TSX Composite Index.

We are maintaining our exposure to interest-rate-sensitive sectors to take advantage of a potential decline in interest rates and to reduce our exposure to slowing consumer spending. However, we continue to balance the Portfolio so as to benefit from an eventual recovery in the economy while not being overly exposed to high-growth stocks that are usually accompanied by higher valuations.

Total return for the fall quarter (9/1/24–11/30/24)

	Total return
Equity Income Guided Portfolio	10.88%
S&P/TSX Composite Index	10.66%
S&P/TSX High Dividend Index	7.92%

Note: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Source - FactSet

Performance

The Equity Income Guided Portfolio generated a total return of 10.88% for the quarter, outperforming the S&P/TSX High Dividend Index and the S&P/TSX Composite Index by 297 and 23 basis points, respectively.

From an attribution point of view, Financials, Communication Services, and Real Estate were the best-performing sectors during the quarter. On the flip side, the Industrials, Consumer Discretionary, and Utilities sectors were relative laggards.

Portfolio positions

Symbol	Company name	Weight	Market cap (M)	Price 11/25/24	52-wk range	EPS/AFFO/CFPS 2023A	EPS/AFFO/CFPS 2024E	EPS/AFFO/CFPS 2025E	Price to earnings/ AFFO/CFPS 2023A	Price to earnings/ AFFO/CFPS 2024E	Price to earnings/ AFFO/CFPS 2025E	Div. yield	Payout ratio 2023A	Payout ratio 2024E	Payout ratio 2025E	Forecast growth in EPS/ AFFO or CFPS	Forecast dividend growth rate to 2025
Interest sensitive																	
BMO	Bank of Montreal	2.5%	$97,479	$133.64	134 - 107	11.81	10.18	10.61	11.3x	13.1x	12.6x	4.64%	49%	60%	60%	4%	3%
CM	Can. Imp. Bank of Commerce	5.0%	$85,685	$91.42	92 - 52	6.73	7.37	7.61	13.6x	12.4x	12.0x	3.94%	51%	49%	48%	3%	2%
BNS	Bank of Nova Scotia	2.5%	$97,124	$78.99	79 - 57	6.48	6.60	7.55	12.2x	12.0x	10.4x	5.37%	65%	64%	57%	14%	1%
RY	Royal Bank of Canada	5.0%	$245,399	$173.77	176 - 116	NA	NA	NA	NA	NA	NA	3.27%	NA	NA	NA	NA	NA
TD	Toronto-Dominion Bank	2.5%	$136,004	$77.81	88 - 74	7.91	7.91	8.29	9.8x	9.8x	9.3x	5.24%	49%	52%	51%	5%	3%
NA	National Bank of Canada	2.5%	$46,789	$137.39	139 - 88	9.46	10.51	11.28	14.5x	13.1x	12.1x	3.20%	42%	41%	41%	7%	4%
MFC	Manulife Financial	5.0%	$78,309	$44.70	46 - 26	3.47	3.76	4.02	12.9x	11.9x	11.1x	3.58%	42%	43%	43%	7%	9%
SLF	Sun Life Financial	5.0%	$49,598	$86.13	87 - 64	6.36	6.77	7.86	13.5x	12.7x	10.9x	3.90%	47%	48%	44%	16%	4%
BAM	Brookfield Asset Mgmt.^	5.0%	$23,345	$56.11	59 - 33	1.37	1.50	1.85	41.0x	37.4x	30.3x	2.71%	93%	101%	95%	23%	16%
IFC	Intact Financial**	2.5%	$47,623	$267.00	275 - 198	11.70	13.58	16.42	22.8x	19.7x	16.2x	1.81%	38%	36%	32%	21%	8%
FCR.UN	First Capital REIT*	5.0%	$3,830	$18.04	19 - 14	0.95	1.11	1.06	19.0x	16.3x	17.0x	4.79%	91%	77%	82%	-5%	0%
T	TELUS	5.0%	$32,460	$21.64	26 - 20	0.95	1.01	1.08	22.8x	21.4x	20.0x	6.95%	153%	154%	155%	7%	11%
BIP.UN	Brookfield Infr. Partners^	5.0%	$22,998	$35.27	37 - 25	2.95	3.09	3.36	12.0x	11.4x	10.5x	4.59%	52%	52%	51%	9%	6%
FTS	Fortis	5.0%	$31,280	$62.90	63 - 51	3.09	3.31	3.48	20.4x	19.0x	18.0x	3.91%	73%	71%	71%	5%	0%
ALA	AltaGas	2.5%	$10,113	$33.96	36 - 27	2.59	2.97	3.16	13.1x	11.4x	10.7x	3.50%	43%	40%	40%	6%	6%
Consumer																	
QSR	Restaurant Brands Int'l^**	2.5%	$31,206	$69.81	83 - 66	3.77	3.13	3.69	18.5x	22.3x	18.9x	3.32%	58%	74%	65%	18%	3%
CTC.A	Canadian Tire**	2.5%	$8,801	$153.72	163 - 126	10.42	11.95	12.86	14.8x	12.9x	11.9x	4.62%	67%	59%	55%	8%	0%
Industrial																	
CNR	Canadian National Railway**	2.5%	$98,275	$156.29	181 - 147	7.28	7.79	8.89	21.5x	20.1x	17.5x	2.16%	43%	43%	40%	14%	4%
TIH	Toromont Industries**	2.5%	$9,555	$116.61	136 - 110	6.38	6.14	6.59	18.3x	19.0x	17.6x	1.65%	27%	30%	29%	7%	0%
EFN	Element Fleet Management**	2.5%	$12,228	$30.20	30 - 21	1.29	1.58	1.73	23.4x	19.1x	17.4x	1.72%	33%	39%	39%	9%	29%
Resources																	
CNQ	Canadian Nat. Resources#	5.0%	$100,408	$47.59	56 - 40	6.93	6.55	7.11	6.9x	7.3x	6.6x	4.41%	27%	32%	32%	9%	7%
SU	Suncor Energy#	5.0%	$71,567	$56.93	58 - 40	10.17	10.86	9.64	5.6x	5.2x	5.9x	4.00%	21%	20%	25%	-11%	5%
ENB	Enbridge*	5.0%	$130,699	$60.01	61 - 45	5.48	5.60	5.75	11.0x	10.7x	10.4x	6.10%	65%	65%	66%	3%	3%
TRP	TC Energy	5.0%	$71,197	$68.60	70 - 44	4.52	4.25	3.82	15.2x	16.1x	17.9x	4.80%	82%	90%	89%	-10%	3%
PPL	Pembina Pipeline*	5.0%	$33,769	$58.17	61 - 44	4.81	5.49	5.54	12.1x	10.6x	10.5x	4.74%	56%	50%	52%	1%	4%
NTR	Nutrien^**	2.5%	$22,910	$46.80	61 - 45	4.37	3.53	3.91	10.7x	13.3x	11.9x	4.62%	49%	58%	53%	11%	-5%

^ In U.S. dollars.
* Adjusted funds from operations (AFFO) instead of earnings per share (EPS).
# Cash flow per share (CFPS).
** FactSet estimates.

Payout ratios based on earnings per share, except as noted above. Dividend growth rate is based on RBC Capital Markets' or FactSet's 2025 forecast dividend compared to the current annualized dividend. Growth in EPS/AFFO/CFPS are based on the RBC Capital Markets' 2025 forecast compared to 2024.

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Source - RBC Capital Markets, FactSet

Sector commentary

Banks and Insurance

Falling interest rates have pared back credit concerns

While we acknowledge that the operating environment will likely be bumpy in the coming quarters, we believe credit risk for the Canadian banks has declined on the back of falling interest rates. All else equal, a portion of credit reserves could be released back into earnings, in our opinion. However, we are also mindful that mortgage renewals over the next year could lead to greater competition, which, in turn, could weigh on profit margins. Overall, we continue to view the group as a solid source of dividend income generation, supported by an average dividend growth profile of approximately 3% through 2025.

For now, we continue to prefer life insurance companies over banks for their earnings potential. The underlying fundamentals amongst the Canadian insurers continue to strengthen, supported by improving earnings and return on equity profiles. The group is well capitalized and provides solid diversification in conjunction with our bank holdings. Heading into next year, RBC Capital Markets expects the group to grow dividends by high single digits.

We are maintaining **Royal Bank of Canada (RY)** at a 5% weight.

We are maintaining our 2.5% position in **Bank of Montreal (BMO)**. The bank's credit quality has deteriorated in recent quarters, causing upward pressure on credit provisions. However, we are maintaining the position because of its exposure to the U.S., where we expect stronger economic growth than Canada over the near term. RBC Capital Markets believes credit losses should peak over the next few quarters. All else equal, we expect the stock to trade at a discount to peers on a price-to-book (P/B) basis over the near-to-medium term. RBC Capital Markets is forecasting the dividend to grow by approximately 3% through 2025.

We are maintaining our 5% position in **Canadian Imperial Bank of Commerce (CM)**. Solid execution has allowed the bank to benefit from positive operating leverage, and a declining rate environment should ease consumer pressures. Due to Canadian Imperial's sensitivity to the Canadian economy, we believe this could be a tailwind in the year ahead. We also believe shares could outperform if an economic soft landing scenario materializes. RBC Capital Markets is forecasting a 2% dividend growth rate through 2025.

We are maintaining our 2.5% position in **The Bank of Nova Scotia (BNS)**. In an effort to increase its exposure to developed markets, the bank announced its intention to acquire a 14.9% stake in KeyCorp (KEY). Management expects the deal to be accretive to earnings in year one and the bank plans to eliminate its dividend reinvestment program, suggesting management is comfortable with the current positioning of its capital base. Bank of Nova Scotia generates an above-average dividend yield and trades at a valuation discount relative to peers. RBC Capital Markets is forecasting a 1% dividend increase through 2025.

We are maintaining our 2.5% position in **Toronto-Dominion Bank (TD)**. The worst-case scenario materialized, in which the bank received US$3.1 billion in fines in a money laundering case and an indefinite asset cap has been implemented on TD's U.S. retail banking operations. We believe this fundamentally alters the company's earnings power, which, in turn, should lead to below-average dividend growth. However, the yield appears attractive, the dividend payout ratio remains reasonable, and the valuation is inexpensive relative to peers.

We are maintaining our 2.5% position in **National Bank of Canada (NA)**. In a move to expand its Canadian exposure, National Bank announced its intention to acquire Canadian Western Bank in an all-stock deal valued at approximately $5 billion, and management expects the transaction to be accretive to earnings. However, we note that the acquisition is still subject to regulatory approval. If given a green light, the company expects the deal to close in late 2025. Overall, we view National Bank as a high-quality bank with strong credit quality, capital, cost control, and attractive returns on equity. RBC Capital Markets thinks the dividend could grow by roughly 4% through 2025.

We are maintaining our 2.5% position in **Intact Financial Corporation (IFC)**. Shares of Intact Financial have performed well on the back of solid income from underwriting and investment. We also believe IFC will continue to hold up well in a risk-off environment; however, we are cognisant that valuation is above average at a P/B ratio of approximately 2.7x. Dividend growth is projected to be in the high single digits through 2025, according to consensus estimates.

We are maintaining our 5% position in **Sun Life Financial (SLF)**. The company's shares currently trade at a premium to peers on a P/B basis, which we believe is warranted given Sun Life's ability to generate an above-average return on equity. Improving financial market conditions should also benefit Sun Life, given that asset and wealth management accounts for roughly half of its overall business. RBC Capital Markets forecasts the dividend to grow by 4% through 2025.

We are maintaining our 5% position in **Manulife Financial (MFC)**. Current CEO Roy Gori announced he will be retiring in 2025 and will be succeeded by the head of MFC's Asian operations (i.e., a key area of MFC's growth). Overall, we believe the underlying business is benefiting from a favourable rate of change, driven in part by the sale of lower-yielding assets at fair value and two transactions that have lowered the company's exposure to liabilities related to the long-term care business. As a result, Manulife is seeing an improvement in profitability metrics that should lead to a re-rating over the medium-to-long term, in our view. Shares trade at a discount to peers on a P/B basis, and RBC Capital Markets expects the dividend to grow by approximately 9% through 2025.

We are maintaining our 5% position in **Brookfield Asset Management (BAM)**. The company plans to grow its fee-bearing capital to more than US$1 trillion by 2029 from US$539 billion at the end of Q3 2024. On the back of stronger earnings, RBC Capital Markets believes the company can grow its dividend by approximately 16% through 2025. The shares trade at a discounted valuation relative to its closest peer.

Real Estate

Slowing immigration and higher bond yields are creating headwinds for the sector

While underlying fundamentals have improved across most property types, we acknowledge that slowing immigration and a reacceleration in bond yields will likely remain front and center amongst most investors. The former could result in lower demand and, therefore, a lower capacity for rent increases, and lower valuation for the multi-residential sector. We would place a greater emphasis on yields because we view the sector as largely being a proxy to the bond markets. All things considered, generalist investors may gravitate towards bonds in the current environment, in our view. The other element to consider is the pace at which rate cuts materialize from the BoC. If rate cuts occur faster than investors anticipate, we could see a re-rating within the sector. The sector is trading at a 17% discount to net asset value, according to RBC Capital Markets.

We are maintaining a 5% position in **First Capital Real Estate Investment Trust (FCR.UN)**. The company is making good progress on its $1 billion asset disposition program, in our view, monetizing lower-yielding assets—in many cases at valuations above book value. The majority of sale proceeds are being directed towards debt reduction, and RBC Capital Markets estimates leverage will decline to the low 8x range by late 2026. Overall, we believe there is a credible plan to drive a re-rating in the units. We view the distribution as sustainable, supported by a payout ratio of roughly 82%, based on RBC Capital Markets' 2025 estimate.

Energy and Materials

Increasing oil supply could stall oil prices and result in lower dividend growth

Fortified balance sheets and disciplined capital allocation have provided downside support for share prices despite the pullback in oil prices, in our view. Heading into the new year, we believe growing global supply will be a key narrative under the Trump administration and if there is a breakdown in OPEC relations. All else equal, RBC Capital Markets is forecasting West Texas Intermediate to average around US$68 per barrel, a discount to where the commodity has traded on average throughout 2024. Put differently, we believe existing dividends are sustainable, but dividend growth may slow at the margin.

Elsewhere, weaker crop prices and tepid demand will likely remain an overhang for the agriculture industry.

We are maintaining our 5% weight in **Canadian Natural Resources (CNQ)**. The company acquired Chevron's (CVX) Western Canadian assets for a transaction price of US$6.5 billion and the acquisition is expected to be immediately accretive, according to RBC Capital Markets. Alongside the announcement, CNQ also increased its dividend by 7%. The caveat is that shareholder returns will be reduced to 60% of excess cash flows until a net debt target of $15 billion is achieved, upon which time 75% will be distributed. When net debt falls below $12 billion, CNQ will distribute 100% of excess cash flows via dividends and share repurchases. RBC Capital Markets is projecting the dividend to grow by approximately 7% through 2025.

We are maintaining our 5% weight in **Suncor (SU)**. The company achieved its $8 billion net debt target earlier than management anticipated and, in turn, SU is planning to return 100% of excess free cash flow by the way of share repurchases (up from 75%). Furthermore, the company is on pace to improve its cost of production to US$43 per barrel (vs. US$53 per barrel currently) by 2026. Overall, we acknowledge that refining margins may compress in a weaker demand environment, but we are encouraged by the favourable rate of change in the business on a longer-term basis.

We are maintaining our 2.5% position in **Nutrien (NTR)**. We believe the operating environment has incrementally improved, driven in part by lower interest rates and stabilizing fertilizer prices. Additionally, NTR's cost-saving initiatives have been tracking ahead of schedule and should drive modest margin expansion over the next 12 months, in our view. Overall, RBC Capital Markets is projecting a slight uptick in cash flow generation in 2025. All things equal, this is supportive of the current dividend, in our view, and provides optionality for share buybacks.

Utilities, Pipelines, and Midstreams

Natural gas exports should drive higher volumes for pipelines and midstreams

Growing North American energy demand is providing a solid setup for the Canadian pipelines and midstream companies, in our view. This, coupled with attractive yields, stable dividend growth, improving balance sheets, and prospects for further interest rate cuts, is reinforcing our conviction in energy infrastructure opportunities. Overall, we believe this group screens well relative to regulated utilities as it is less interest-rate-sensitive and can benefit from higher drilling volumes associated with the export of natural gas, which should start in Canada next year.

Conversely, we believe regulated utilities can still play a vital role within the Portfolio. In particular, the prospects of deregulation and corporate tax cuts have reignited the market's appetite for risk assets. Therefore, regulated utilities may lag if the Trump administration is able to follow through with its plans. However, regulated utilities may outperform if these initiatives fail to materialize. Importantly, these businesses come with stable rate-base growth and, in turn, should be supportive of steady dividend growth for years to come, in our view.

We are maintaining our 5% position in **TC Energy (TRP)**. Post the spinoff of its oil infrastructure assets (i.e., South Bow), we believe the remaining natural gas pipelines and power solutions provide a high-quality stream of predictable cash flows. This is supported by the fact that approximately 95% of its EBITDA (earnings before interest, taxes, depreciation, and amortization) stems from regulated and long-term contracted assets. Through 2026, management has guided to EBITDA growth of roughly 7% per annum, providing ample opportunity to support its dividend growth target of 3% per year while giving enough of a buffer towards debt reduction and growth initiatives.

We are maintaining our 5% position in **Enbridge (ENB)**. The company has achieved its 4.5x–5.0x leverage target and has returned to a self-funding strategy, both of which should resonate with investors, in our opinion. Looking ahead, we believe ENB's existing infrastructure footprint is well positioned to capitalize on growth in conventional energy and low-carbon energy. RBC Capital Markets estimates the dividend will grow by approximately 3% through 2025.

We are maintaining our 5% position in **Pembina Pipeline (PPL)**. We believe the company is well positioned to benefit from growing natural gas and natural gas liquids volumes in the Western Canadian Sedimentary Basin, alongside further infrastructure opportunities. The company's EBITDA is supported by 80% fee-based revenues, primarily take-or-pay or cost-of-service contracts, which underpin the steady dividend. RBC Capital Markets forecasts the dividend will increase by about 4% through 2025. Finally, Pembina noted it plans to operate under a self-funding model and RBC Capital Markets expects balance sheet leverage to be around the 3.5x level by the end of 2025.

In the Utilities sector, we are maintaining our 5% position in **Brookfield Infrastructure Partners L.P. (BIP.UN)**, given its resilience to an uncertain economic environment and a healthy, growing dividend yield. We believe the company has multiple avenues of growth for funds from operations, largely through its inflation-indexed contracts and capital recycling program. We continue to favour Brookfield Infrastructure amongst other Canadian Utilities companies as we believe it has more global assets with revenues tied to economic activity. Additionally, more than 90% of its debt is fixed, with an average maturity of seven years. The company targets distribution increases of 6%–9% per annum over the long term.

We are maintaining our 5% weight in **Fortis (FTS)**. The company has reiterated its rate-based growth plan of approximately 6.5% per annum from 2024 to 2028, supporting a dividend growth profile of roughly 5% per year. We continue to view Fortis as a steady dividend payer with attractive dividend growth and a supportive balance sheet.

We are maintaining our 2.5% position in **AltaGas (ALA)** in order to provide the Portfolio with more defensive characteristics. RBC Capital Markets believes ALA will monetize its 10% stake in the Mountain Valley Pipeline and that proceeds will be directed towards debt reduction. If executed, we believe this will act as a catalyst for the shares as balance leverage falls closer to the company's target of approximately 4.0x. RBC Capital Markets believes the strength and stability of the utility business will allow the company to grow its dividend by approximately 6% through 2025, supported by a payout ratio of roughly 40%.

Consumer

Consumer discretionary spending is down, but as we are not calling for a recession, we are keeping our exposure steady

As interest rates continued to fall, incremental relief for the consumer began and the sector traded higher. While certain components of the Consumer Price Index moved lower, the overhang of housing and shelter costs maintained pressure. Through investments in Restaurant Brands International (QSR) and Canadian Tire Corporation (CTC.A), we are maintaining the Portfolio's exposure to the consumer by positioning within names that offer a more defensive product mix and attractive and sustainable dividend yields.

We are maintaining our 2.5% position in **Restaurant Brands International (QSR)**. While Q3 was challenging from a same store sales (SSS) perspective, trends look to be improving with October readings showing SSS growth driven by promotional and value-focused campaigns. China continues to be a headwind heading into next year, but management has maintained its FY28 growth guidance across all measures. QSR's 3% dividend yield is sustainable, in our view, with a 65% payout ratio and dividend growth of 3% for 2025, per FactSet consensus estimates.

We are maintaining our 2.5% position in **Canadian Tire Corporation (CTC.A)**. Despite the current challenging operating environment given broader consumer weakness, Q3 underscored the defensive lean of the company's product offerings. As the company continues to focus on cost management, margins are coming in better than consensus expectations and this highlights management's initiatives amidst an uncertain macro environment. In the meantime, we are pleased to collect the sub-5% dividend yield and remain confident in management's ability to navigate the year ahead.

Industrials

Above-average dividend growth, supported by healthy cash flows and strong balance sheets

The Canadian Industrials sector is not among the higher-yielding sectors in the S&P/TSX Composite Index, but it encompasses high-quality businesses with proven histories of consistent shareholder returns. In our view, the Industrials companies within the Portfolio have strong track records of strategic execution, healthy balance sheets, and quality management teams.

We are maintaining a 2.5% position in **Element Fleet Management (EFN)**. The company continues to benefit from strong originations, which, in turn, should be supportive of continued growth in services and syndication income. Due to its balance sheet strength and growing cash flows, we believe the company has plenty of options for the return of capital. The dividend is projected to grow by high double digits through 2025, according to consensus estimates.

We are maintaining our 2.5% position in **Toromont Industries (TIH)**. TIH reported weaker operating margins and a shrinking backlog in Q3 2024. However, we would note that the company benefitted from higher equipment sales, which tends to have lower margins. The company's consolidated backlog remains healthy at $1.1 billion and management expects to deliver approximately 90% of the backlog within the next 12 months. TIH has a long history of dividend increases, and we expect more increases and share buybacks in the future as Toromont is in a net cash position (i.e., its cash holdings exceed its debt). Shares are trading at a modest discount to their long-term average on a forward price-to-earnings basis.

We are keeping our 2.5% position in **Canadian National Railway (CNR)**. RBC Capital Markets believes that recent labour disputes and port strikes could result in a headwind to Q4 volume trends. However, this is likely a timing issue from our perspective and any delayed volumes should flow through to 2025. The prospects of increased tariffs pose a risk heading into next year, but the barriers to entry in the railroad industry remain high and we continue to favour the stock for long-term growth. Canadian National Railway has a long history of returning capital to investors, and FactSet estimates point to a 4% dividend increase by the end of 2025.

Communication Services

Cost-efficiency takes center stage amidst a challenging operating environment

The telecommunications space continues to face competitive pressures. In addition, lower expected revenue growth, per RBC Capital Markets estimates, is likely to aggravate balance sheet concerns and the sector's overall ability to keep dividends intact. As we look out into 2025, stock selection will be key as each operator works to lower costs and improve revenue generation. In focus for the quarter and year ahead is the maintenance of adjusted EBITDA and free cash flow guidance, as well as ongoing realizations of cost efficiencies that are combatting, in part, the more challenging revenue environment.

We are maintaining our 5% position in **TELUS (T)**. Despite the more challenging operating environment, RBC Capital Markets expects TELUS to deliver industry-leading growth and capital returns. This is supported by a compound annual growth rate for net asset value in the high single digits, double-digit free cash flow growth, and declining capital expenditure intensity through 2027, providing support for the dividend. Management is guiding for 7%–10% annual dividend growth through 2025, a standout level versus the company's two largest peers, and shares currently offer a 7% dividend yield with a declining payout ratio.

Methodology

The objective of the Equity Income Guided Portfolio (EIGP) is to provide investors with an attractive rate of current income with the potential for growing cash flow plus long-term capital appreciation by investing in a diversified Portfolio of higher-yielding Canadian securities, such as common stocks, Real Estate Investment Trusts (REITs), and income trusts that trade on the S&P/ TSX Composite Index. This Portfolio consists of approximately 20–30 stocks and may be appropriate for investors who have a moderate risk tolerance in relation to an equity investment. Because of its focus on income and income growth, this Portfolio would ordinarily exhibit greater defensive characteristics relative to the broad equity market during bear markets and may underperform during bull markets.

The top-down strategy process employed by RBC Capital Markets plays a different role in the EIGP process than with our other Guided Portfolios. While the recommended sector “overweights” and “underweights” are taken into consideration, the Investment Committee aims to diversify the Portfolio adequately across the four broader economic sectors (interest sensitive, consumer, industrial, and resources), even though dividends may be modest. In this way, we address one of the most common pitfalls inherent in income investing: investors who focus too narrowly on the size of the dividend will more than likely find themselves heavily concentrated in the Financials and Utilities sectors, which tend to react negatively to rising interest rates.

Once the “sector weights” are established, an eligible universe of securities is determined. Careful consideration is given to identifying a pool of fundamentally preferred companies that have the potential to return, on a sustainable basis, a significant amount of cash flow to investors. The resulting universe will consist of securities with either an attractive dividend yield or a yield that may appear less attractive, but that we believe have strong potential for growth. In addition, companies that, in our view, pay out too high a percentage of their cash flows in dividends or distributions will be excluded.

Additional factors analyzed include a company’s financial strength and debt levels, the amount of cash generated by the business relative to capital expenditure requirements, its longer-term return on capital, the proportion of income paid out versus reinvested, historical and forecast dividend growth rates, and trading liquidity.

The current dividend yield for the S&P/TSX Composite Index is approximately 2.71%; the EIGP currently offers investors a yield of approximately 4.09% plus the potential for capital appreciation and an inflation hedge.

Disclosures and disclaimers

Equity Income Guided Portfolio Investment Committee

Kapil Bapat, CIM, Portfolio Advisor
kapil.bapat@rbc.com; RBC Dominion Securities Inc.

Dominick Hardy, CA, CFA, CPA, Portfolio Advisor
dominick.hardy@rbc.com; RBC Dominion Securities Inc.

Patrick McAllister, CFA, Manager, Equity Advisory & Portfolio Management
patrick.mcallister@rbc.com; RBC Dominion Securities Inc.

Sunny Singh, CFA, Portfolio Advisor
sunny.singh@rbc.com; RBC Dominion Securities Inc.

Richard Tan, CFA, Portfolio Advisor
richard.tan@rbc.com; RBC Dominion Securities Inc.

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Distribution of ratings – RBC Capital Markets Equity Research
As of September 30, 2024

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Outperform]	858	57.39	290	33.80
Hold [Sector Perform]	599	40.07	153	25.54
Sell [Underperform]	38	2.54	3	7.89

Explanation of RBC Capital Markets Equity Rating System
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Ratings:
Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

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Brookfield Asset Management Ltd. (BAM; Outperform; $56.11)
Brookfield Infrastructure Partners L.P. (BIP; Outperform; $35.27)
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Canadian National Railway Company (CNR; Outperform; $156.29)

Canadian Natural Resources Ltd. (CNQ; Outperform; $47.59)

Canadian Tire Corp. (CTC.A; Outperform; $153.72)

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First Capital REIT (FCR.UN; Outperform; $18.04)

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Manulife Financial Corp. (MFC; Outperform; $44.70)

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Restaurant Brands International Inc. (QSR; Outperform; $69.81)

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TELUS Corp. (T; Outperform; $21.64)

Toromont Industries Ltd. (TIH; Outperform; $116.61)

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