

Consistent Management Crushes Inflation

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Continuous increase in payouts from dividend growth stocks are a sign a company has been well managed over a long period.

An investor's best hedge against inflation is a dividend growth stock.

But which stocks can you depend on to raise their dividend from year to year? A lot of Canadian companies, the big banks included, have either lost their dividend growth mojo temporarily or indefinitely in the past decade.

For help in long-term, inflation-busting dividend growth stocks, let's consult a website called Canadian Dividend Growth Investing & Retirement that maintains an extensively detailed Canadian Dividend All-Star list.

Stocks on the all-star list are ranked by the number of consecutive years of dividend increases. In the chart that goes with this column, you'll find all the stocks on the list with 10-plus years of dividend hikes. All have 10-year average annual dividend increases that beat the 1.8-per-cent average inflation rate of the past 10 years. Some stocks are miles ahead of inflation.

The all-star list is topped by Canadian Utilities Ltd. and Fortis Inc., with an incredible 47 and 45 straight years of dividend increases, respectively, through the end of 2018. Many stocks have a streak of between 20 and 30 years. The longer the streak, the more likely it is that a company is consistently well managed and thus capable of more dividend growth.

"I don't think there's any luck in that group," said Harry Levant, an income-investing specialist who runs IncomeResearch.ca and has taken a look at the Dividend All-Star List. "Management deserves a lot of credit."

Not that dividend cuts don't happen in the rarified world of dividend all-stars. Exhibit 1: TC Energy Corp. (formerly TransCanada Corp., which was formerly TransCanada Pipelines) slashed its cash payout to shareholders by close to one-third back in 1999. Now, it's riding an 18-year streak of dividend increases.

Exhibit 2: Telus Corp., which chopped its dividend by about 57 per cent in 2001. Telus has since clocked in with 15 straight years of higher dividends. The lesson of both these stocks is that even dividend all-stars have their slumps. There are no guarantees in dividend growth.

The banks are further proof of this. Somehow, Canadian Western Bank and Laurentian Bank of Canada are the only banks on the list of stocks with at least 10 consecutive years of dividend growth. In fact, there are only four financial-services stocks – Intact Financial Corp. and Genworth MI Canada Inc. complete the list.

The backstory here is that the global financial crisis caused the big banks to interrupt their annual dividend increases temporarily. The Big Six currently have streaks of seven to nine years, according to Canadian Dividend Growth Investing & Retirement.

Mr. Levant said he was surprised by the variety of stocks on the list. “There are names that you really don’t hear much about – Stella Jones, Andrew Peller, Exco Technologies, Enghouse – those aren’t top-of-mind dividend stocks.”

Stella Jones Inc. produces lumber products such as railway ties and utility poles, Andrew Peller Ltd. is a winery, Exco Technologies Ltd. produces industrial equipment for the auto industry among others and Enghouse Systems Ltd. is in software.

There’s a surprising level of sectoral diversity on the list of dividend stocks with 10 years or more of growth beyond the usual suspects – utilities, telecommunications and consumer staples (food, groceries). A couple of tech stocks make the list – Enghouse plus Tecsys Inc., as does a real estate investment trust, Plaza Retail REIT, and a trio of oil and gas stocks, Imperial Oil Ltd., Canadian Natural Resources Ltd. and Suncor Energy Inc. Energy stocks are generally not great dividend growth options because revenues and profits can be subject to the ups and downs of oil prices.

To get an idea of how expensive these dividend growth stocks are, compare the recent yield for a stock with its average over the past 60 months (the chart has these data). Share prices and yields move in opposite directions. So if a stock has a higher yield than its five-year average, it may be a buying opportunity. Lower yields suggest a stock could be on the pricey side.

If you're looking for inflation-beating dividend growth, consistency speaks volumes. The growth rate for the dividend at Canadian Utilities has been 9 per cent or 10 per cent over the past one-, three-, five- and 10-year periods. Fortis has been similarly consistent, as have several others. An example of a stock that has lost dividend growth momentum is BCE Inc., which has gone from a robust 15.3 per cent annualized over the past 10 years to about 5 per cent in more recent periods.

Dividend growth in general has slowed over the years, if you use the dividend all-stars with at least 10 straight years of growth as a guide. The average 10-year growth rate was 11.7 per cent, the average five-year rate was 10.7 per cent, the three-year rate was 9.5 per cent and the one-year rate was 8.8 per cent. It looks like the slow-growth economy we've been living with for years is having an effect on dividend increases.

These stocks tame inflation

The website Canadian Dividend Growth Investing & Retirement created this list of Canadian all-star dividend stocks ranked by the number of consecutive years they have increased their dividends. Consistently rising dividends are an effective way to counteract the effect of inflation on your income. The data here reflects regular dividends, not special payouts. Streak length is calculated using dividend record date, which is the date an investor must officially own shares in order to receive a dividend. Growth rates are calculated in the currency they are paid (some stocks pay their dividends in U.S. dollars). Dividend increases announced so far in 2019 are not included here.

Please see next page.

Company	Ticker	Consecutive years of dividend hikes	Stock price	Yield	Ann. dividend growth rates (% , 1-year)	Ann. dividend growth rates (% , 3-year)	Ann. dividend growth rates (% , 5-year)	Ann. dividend growth rates (% , 10-year)	Average yield over past 60 months (%)
Canadian Utilities	CU-T	47	\$38.26	4.4	10	10.1	10.2	9	3.69
Fortis Inc.	FTS-T	45	\$51.34	3.5	6.2	7.3	6.8	5.6	3.4
Toromont Industries Ltd.	TIH-T	29	\$58.93	1.8	21.1	10.6	12.1	11.3	1.69
Canadian Western Bank	CWB-T	27	\$28.75	3.8	8.5	5	7.2	9	2.84
Atco Ltd.	ACO-X-T	25	\$46.63	3.5	15	15	15	12.4	2.74
Thomson Reuters*	TRI-T	25	\$85.73	2.3	0.4	1.1	1.3	2.5	3.47
Empire Company Ltd.	EMP-T	24	\$30.92	1.4	3.6	4.2	5.2	6.6	1.62
Imperial Oil	IMO-T	24	\$35.96	2.5	15.9	10.6	8.3	6.7	1.37
Metro Inc.	MRU-T	24	\$49.53	1.6	10.8	15.6	16.7	16	1.39
Canadian National Railway	CNR-T	23	\$120.44	1.8	10.3	13.3	16.2	14.7	1.6
Enbridge Inc.	ENB-T	23	\$47.42	5.9	11.2	13	16.3	15.1	4.13
Saputo Inc.	SAP-T	19	\$45.34	1.5	4.8	7	8.1	12	1.28

Canadian Natural Resources	CNQ-T	18	\$35.77	4.2	21.8	13.4	18.4	21	2.8
TC Energy Corp.	TRP-T	18	\$65.35	4.6	10.4	9.9	8.4	6.7	4.14
CCL Industries Inc.	CCL-B-T	17	\$62.25	1.1	13	20.1	24.8	16.6	0.82
Finning International	FTT-T	17	\$21.73	3.8	6	2.9	5.7	6.3	2.92
Transcontinental Inc.	TCL-A-T	17	\$14.36	6.1	5.7	7.4	7.4	10.3	3.55
Plaza Retail REIT	PLZ-UN-T	16	\$4.17	6.7	3.7	3.8	4.5	4.8	5.73
Ritchie Bros. Auctioneers Inc.*	RBA-T	16	\$44.81	2.2	2.9	5.3	6.7	7.5	2.12
Suncor Energy Inc.	SU-T	16	\$40.69	4.1	12.5	8.1	14.6	21.8	3.01
Cogeco Communications Inc.	CCA-T	15	\$91.81	2.3	10.5	10.6	12.5	16.6	2.16
Telus Corp.	T-T	15	\$50.22	4.5	6.6	7.7	9.1	8.7	4.14
Intact Financial	IFC-T	14	\$116.92	2.6	9.4	9.7	9.7	8.5	2.48
Stella-Jones Inc.	SJ-T	14	\$45.27	1.2	9.1	14.5	19.1	18.9	0.85
Andrew Peller Ltd.	ADW-A-T	13	\$13.40	1.5	13	10.5	8.9	7.1	1.46
Exco Technologies Ltd.	XTC-T	13	\$8.20	4.4	6.3	12.3	13.6	17.5	2.4
Boyd Group Income Fund	BYD-UN-T	12	\$163.00	0.3	2.3	2.4	2.4	9.9	0.5
Emera Inc.	EMA-T	12	\$52.30	4.5	7	11.1	10.1	9	4.38

Enghouse Systems Ltd.	ENGH-T	12	\$33.05	1.3	12.9	17.6	18.1	21.5	0.94
Brookfield Infrastructure Partners LP*	BIP-UN-T	11	\$55.68	4.9	8	10	10.4	12.3	4.74
CAE Inc.	CAE-T	11	\$34.87	1.2	11.8	9.4	12.6	14.3	1.63
Franco-Nevada Corp.*	FNV-T	11	\$104.91	1.3	4.4	4.6	5.7	14.7	1.42
Laurentian Bank of Canada	LB-T	11	\$43.45	6.1	3.3	4.9	5.1	6.9	4.53
Tecsys Inc.	TCS-T	11	\$13.70	1.6	10.8	28.1	24	17.8	1.2
BCE Inc.	BCE-T	10	\$61.08	5.2	5.2	5.1	5.3	15.3	4.86
Genworth MI Canada Inc.	MIC-T	10	\$41.55	4.9	7.3	6.5	7.9	n/a	4.66
Inter Pipeline Ltd.	IPL-T	10	\$20.70	8.3	3.4	4.3	7.4	7.2	5.75
Average				3.32	8.8	9.5	10.7	11.7	

Source: dividendgrowthinvestingandretirement.com

*Dividends paid in U.S. dollars / Notes: Price and yield as of June 3; annualized dividend growth rates to Dec. 31, 2018