Yield Hog
How to soothe a nervous portfolio? Predictable dividends

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Everyone likes a juicy dividend increase. But wouldn't it be great if you could know a dividend hike was coming before it was announced?

Well, it turns out you can.

Some companies are so predictable, they give you a heads up months or even years before they pull the trigger on an increase.

Buoyed by strong wireless growth and the success of its Optik TV rollout, Canada's second-biggest telecommunications company has raised its dividend four times in the past two years. And there's more where that came from, the company says.

In its December guidance, Vancouver-based Telus reiterated plans to continue boosting its dividend twice a year – at a rate of about 10 per cent annually – until at least 2013, while maintaining its dividend payout ratio at a conservative 55 to 65 per cent of earnings.

In a world where investors face so many unknowns, that sort of certainty is comforting. In fact, Telus's dividend growth plans are so specific, it has even told shareholders (disclosure: I am one) when it expects to formally declare the increases – namely in the months of May and November.

A dividend bump isn't money in the bank until the board approves it, mind you, but when a company telegraphs moves that far into the future it's usually a strong sign of confidence.

"They can't come out and make those kind of bold projections and then change their position. They would lose a lot of credibility," says Tony Demarin, president of Winnipeg-based BCV Asset Management, which owns Telus shares. "I am assuming they are confident about their business model and their growth."

Mr. Demarin, whose firm also owns shares of Telus competitor BCE Inc., likes the telecom space in general for its stable, utility-like characteristics and growing dividends. He believes the industry has a bright future because data usage is soaring with the adoption of wireless smartphones and tablets.

He's especially enamored of Telus because of its dominance in Western Canada, where the economy is benefiting from population growth and a strong energy sector. The fact that competitor Shaw Communications Inc. has bowed out of the wireless space and that Telus's Optik TV is gaining market share are also big pluses, he says.

"Nobody's got home field advantage like Telus does," Mr. Demarin says. "I'm going to continue to hold Telus for the growing dividend and for the good business that it is."

No stock is risk free, of course. Factors such as intensifying competition, potential regulatory changes or a dramatic downturn in the economy could hurt Telus's results.

That said, in its December forecast the company projected that revenue will grow by 4 per cent to 6.5 per cent in 2012, while earnings before interest, taxes, depreciation and amortization should rise by up to 6 per cent, driven by continued wireless subscriber growth and gains in average revenue per user.

Further, Telus predicted earnings per share will rise by up to 12 per cent this year, reflecting operating earnings growth and lower financing costs. Free cash flow, before dividends and potential wireless spectrum acquisition costs, should climb by 15 per cent to 35 per cent.

What's the catch? One concern is that Telus's shares, which delivered a sizzling total return – including dividends – of 32.2 per cent in 2011, may already be pricing in all of this good news. Of the 21 analysts who follow the company, 12 rate it a "hold," largely for valuation reasons.

However, the other nine analysts rate the shares – which currently yield 4.1 per cent – a "buy" or equivalent. Among them is RBC Dominion Securities analyst Drew McReynolds, who laid out the bullish case for Telus in a note a few days before the company issued its 2012 guidance.

"Our outperform ranking reflects our view that Telus has the best combination of growth, a relatively inexpensive valuation … in line with the peer group average and solid capital return potential," he wrote.

As for those future dividend increases, he said investors can rest easy.

"We believe the company remains firmly on track to meet targeted dividend increases of more than 10 per cent in 2012 and 2013."