Yield Hog- Four dividend picks for a nervous market

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This week's Yield Hog column is dedicated to the memory of Yellow Media's dividend (2003-2011).

When a company cuts its dividend, investors suffer in two ways: The income they were counting on drops, and the stock price often tumbles with it.

To use a hockey analogy, it's like getting hit from behind and cross-checked in the face at the same time. Yellow Media investors know the feeling.

Well, Yield Hog is here to help. With Canada's benchmark index having officially entered a bear market, we asked four dividend-oriented investors each to pick a Canadian stock with an emphasis on the safety of the quarterly payout. We wanted stocks you could tuck away and not worry about, but we also wanted some sizzle with our safety.

The ground rules were as follows: The company must have raised its dividend at least once in the last year; the stock must yield at least 3 per cent; and the payout ratio– dividends as a percentage of profits over the past 12 months, as calculated by Bloomberg– must be manageable to minimize the possibility of a dividend cut and leave room for future increases. Here's what our panel came up with.

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Tony Demarin, President of BCV Asset Management, Winnipeg

Stock: Telus Corporation
Yield: 4.3 per cent
Payout Ratio: 62.1 per cent

Comments:

In this environment where Europe is dominating the headlines and everybody is looking for safety and income, I think a telecom company fits nicely. The telecom sector is going through some competitive changes, but Telus is a very well run company with a good balance sheet, and it has dominated its primary market of British Columbia and Alberta. It is attractive to us especially now that Shaw Communications has bowed out of the wireless area and Telus is starting to penetrate into the television market. The payout ratio is reasonable and they do have a history of rewarding shareholders with dividend growth, including two increases in the past year. I think the dividend is very safe; when companies are increasing their dividends on a consistent basis it tells me they're far from wanting to cut or eliminate them.

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Robert Cable, Director, Wealth Management, ScotiaMcLeod, Mississauga

Stock: Enbridge Inc.
Yield: 3.0 per cent
Payout Ratio: 67.3 per cent

Comments:

Enbridge may be the premier dividend growth play. The dividend has more than tripled from 2000 to 2011 and the pipeline operator and natural gas distributor has stated publicly that, with current projects, earnings should grow by at least 10 per cent annually into the second half of the decade, supporting double-digit dividend hikes. Earnings and cash flow are highly certain because of long-term regulatory agreements, and less than 5 per cent of earnings are exposed to commodity prices, interest rates and foreign exchange risks. Since 1953, the shares have produced an average annual total return – capital growth plus dividends – just shy of 15 per cent. Studies show that dividend-paying companies outperform and the best performers of all are the dividend raisers, so it's crucial to own companies where the dividend is a) safe and b) likely to be raised.

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David Sherlock, Portfolio Manager, McLean & Partners Wealth Management, Calgary

Stock: Bank of Nova Scotia
Yield: 4.1 per cent
Payout Ratio: 50.1 per cent

Comments:

Bank of Nova Scotia offers a full range of banking products and services in over 50 countries and is Canada's most international bank, with approximately 35 per cent of net income from outside Canada. Its international operations focus on Central and South America and Asia Pacific, with investment stakes in two Chinese banks. It has minimum PIIGS (Portugal, Ireland, Italy, Greece, Spain) exposure of $1.6-billion, which is immaterial. We like the recent acquisition of DundeeWealth; BNS now has assets under management of $105-billion and is the fourth-largest mutual fund manager in Canada. It is an extremely well-capitalized bank that benefits from international growth, wealth management growth and low-risk exposures. The payout ratio is very manageable and they have growing revenue streams which lead us to be optimistic about further dividend growth.

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Juliette John, Lead Manager, Bissett Canadian Dividend Fund and Bissett Dividend Income Fund, Calgary

Stock: Mullen Group Ltd.
Yield: 5.6 per cent
Payout Ratio: 50.2 per cent

Comments:

Financials and telecommunications are great candidates and are well-represented in Bissett yield portfolios but it's always interesting to identify names outside of the key sectors to highlight diversification. Mullen Group is a diversified energy services company but also has a good-sized trucking division. The dividend history looks choppy on the surface but we believe there's a solid commitment to the dividend. It was a dividend-paying company prior to converting to a trust in 2005. Mullen converted back to a corporation in 2009 and suspended dividends through the conversion, which coincided with a bleak period in both the trucking division and domestic oil field activity. Later that year, the annual dividend was reinstated and this year it was doubled to $1 per share. Going forward, a series of small focused acquisitions should contribute to growth in both business segments. Mullen may exhibit some cyclicality, which could affect earnings growth. However, we view the dividend to be supported even in a lower-growth scenario.