Resource Companies Have Caught the Dividend Bug

Description

Because of the massive expenditures required to bring an in-ground resource to life, companies that participate in this space have historically not been known as big players on the Canadian dividend scene. However, the times, they are a changin'. In recent years, for a variety of reasons, resource based companies have not only begun paying dividends, but have become some of the best candidates for continued dividend growth in the TSX.

A screen of the Canadian market that looked for companies with a yield of more than 2%, payout ratio less than 30% (which indicates the current dividend is very sustainable and could grow), and 2 year dividend CAGR of 10% turned up a list of 14 names, 8 of which were tied to the resource space.

Tabled below are the top 5 biggest dividend growers over the past 2 years according to this screen. 4 of the 5 are resource oriented.

Company Name	Current Yield	Payout Ratio	2 Year CAGR
Agrium (TSX:AGU)	2.2%	10.4%	269.3%
Silver Wheaton (TSX:SLW)	2.0%	21.6%	194.4%
Potash Corp. (TSX:POT)	2.6%	27.3%	121.0%
Goldcorp (TSX:G)	2.1%	28.6%	47.5%
Cogeco Cable (TSX:CCA)	2.3%	24.9%	28.3%

Source: Capital IQ

Agrium tops the charts after hedge fund JANA Partners got out its cattle prod and jolted the company's board into action by waging a well-documented proxy battle over the past year or so. Time will tell if the company has truly found dividend religion now that JANA's bid to replace the board has been thwarted.

Silver Wheaton is second on the list, however, this company's dividend comes with a twist. Whereas most companies have a specified regular payout, Silver Wheaton's dividend floats. And, its policy around how the dividend floats recently changed. Before the company released quarterly results last week the policy had been to pay out 20% of quarterly cash from operations. In an effort to add a degree of stability to this payout, the company now will pay out 20% of cash from operations over a 4 quarter span. This will ramp over the next two quarters and be in full effect by this year's 4th quarter.

Potash is in an enviable position of having significant cap ex roll off in the next year or so. This will leave it in a tremendous position to stay on the dividend growth train. Goldcorp's dividend appears safe, but unless the price of gold marches higher, growth is unlikely. And Cogeco clearly has room to continue to hike its dividend but more than anything, the decision may come down to the controlling family's need for cash.

Foolish Takeaway

Anchoring your portfolio with not just dividend payers, but dividend growers has historically been a tremendous way to put up market beating returns. Owning a basket of dividend growers like the ones provided may not be the sexiest way to invest, but it could prove to be the most lucrative.

In our report "**13 High-Yielding Stocks to Buy Today**" we profile a host of top-notch companies that will have you rolling in dividend cheques before you know it. Click here for instant access to this free report.

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Fool contributor Iain Butler is short $28 June 2013 puts on Silver Wheaton and $40 July 2013 puts on Potash. In addition, he owns shares of Potash outright. The Motley Fool doesn't own shares in any of the companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCA (COGECO CABLE INC)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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