The Top 5 Dividend Stocks of the Past Decade

Description

By Robert Baillieul

I became addicted to investing the day the first dividend cheque arrived in my bank account. It was a thrill to get big piles of cash delivered to me on a regular basis. It was like getting a quarterly paycheque — but someone else was doing all of the work.

Why own dividend-paying stocks?
Screening for companies that pay consistent, growing dividends often reveal great investment candidates.

Income stocks like **TransCanada** or **Bank of Nova Scotia** tend to have stable business models. Many of these names boast predictable operations or products and services that are in consistent demand. Such companies often don't need a lot of cash to fund business. So instead of plowing all of their profits back into operations, these corporations pay some of their returns out to shareholders. Cha-ching!

For companies with strong competitive advantages, payouts can often be raised faster than the rate than inflation. This makes dividends ideal for investors looking to create a retirement income stream because they help you preserve your wealth as the cost of goods and services rise.

In fact, a surprisingly large fraction of investment returns come from dividends. From 1975 to 2009, the MSCI World Index — a global equity benchmark — posted a 6.9% real rate of return. Of that, dividends accounted for 2.9 percentage points and capital gains 4.0 percentage points.

Other studies have found similar results. According to a report published by **RBC** Capital Markets, between 1986 and 2011 Canadian dividend-paying stocks beat the market average by 3.5% annually. Stocks that not only paid a dividend but also regularly increased those payouts did even better, outperforming by an average of 5.2% per year.

The top five dividend growth stocks of the past decade
Clearly, finding great companies with the ability to pay and raise their dividend is a recipe for

investment success. But if we want to find the best stocks for the next decade, it helps to know who performed best for the last decade. Below is a list of the top five Canadian income stocks ranked by their 10-year compounded annual dividend growth rate.

Company	10-Year Dividend CAGR	Current Yield	10-Year Total Return	Pa
Rogers Communications	41.2%	4.21%	375%	
Agnico Eagle Mines	39.2%	3.05%	85%	
Shaw Communications	34.8%	3.94%	795%	
Home Capital Group	32.0%	1.74%	203%	
Potash Corp. of Saskatchewan	31.2%	3.84%	1,016%	

Themes from this list
The first thing you should notice is that two of the five names on that list are materials stocks. That shouldn't be surprising given that in the past decade we witnessed one of the greatest commodity bull markets in history. But prospective investors are unlikely to see those same returns in the future.

Take **Agnico Eagle Mines** (TSX:AEM), for example. While this is an incredibly well-run gold miner, most of its returns were driven by economic tailwinds. Between 2003 and 2013, gold prices increased from $350/oz to $1,300/oz. If the price of your product more than triples, most companies can post good financial performance.

But today, miners like Agnico face a much bleaker picture. Gold prices are falling as central banks around the world take their feet off the metaphorical monetary gas pedal. Costs are rising rapidly too. During the company's last quarterly report, Agnico's mining costs increased $125/oz year-over-year to $785/oz. So unless the gold rally continues, it's unlikely Agnico will be able to pass on big dividend hikes to shareholders.

Potash Corp. of Saskatchewan (TSX:POT) was a big winner. But this incredible run was driven by a combination of factors that are unlikely to be repeated over the next decade. Since 2003, potash prices increased from $150/tonne to $390/tonne. But with the rush of new potash mines opening globally, prices have limited upside. If the potash bull market doesn't catch a second wind, don't expect Potash Corp's profits — and by extension its dividend — to grow much further.

The second big theme on the list is telecom. This is a protected industry where high barriers to entry allowed companies like **Rogers Communications** (TSX: RCI.B) and **Shaw Communications** (TSX:SJR.B) to earn excess returns for investors. Over the past five years, Rogers and Shaw posted 36% and 20% annual returns on equity, respectively. (Oh, so that's where my cable bills were going.)

But the telecom landscape is changing. In June, **Verizon** announced plans to enter the Canadian market, bringing with it the size and scale needed to lower prices and decimate profit margins. Can Canadian firms compete? It's going to be challenging. Verizon has a market capitalization of $146 billion which is larger than the Big 3 Canadian telcos — Rogers, **Telus**, and **Bell** — combined.

Foolish bottom line
While this screen revealed some interesting investment candidates, don't expect such stellar performance to continue. In spite of this, high dividend growth indicates that management is a least looking out for the interests of shareholders. That's a good thing — even if these companies are unlikely to show up on this list again in 2023.

Interested in some dividend-paying stock ideas for your portfolio? The Motley Fool has assembled a special FREE research report, "**13 High-Yielding Stocks to Buy Today**." Simply click here now to receive a copy at no charge!

Robert Baillieul has no position in any stocks mentioned. Follow The Motley Fool on Twitter and Facebook for the latest in Foolish investing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AEM (Agnico Eagle Mines Limited)
2. TSX:RCI.B (Rogers Communications Inc.)
3. TSX:SJR.B (Shaw Communications)

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