



## 3 Dividend Champions for Every Portfolio

### Description

Over the last decade, dividends have made up a significant portion of the stock market's returns, stressing their importance to investors if they are to maximize the returns from their investments. However, with dividend investing typically being a long-term pursuit focused on building a steadily growing income stream, investors should focus on those companies paying dividends with the following attributes.

The dividend payments must be growing at a rate greater than inflation, offer a yield in excess of the risk-free rate of return, and be sustainable. There is a debate over what constitutes the risk-free rate of return. My preferred measure, given the long-term nature of dividend investing, is to use the yield on 10-year Canadian government treasuries, which at this time is 2.3%.

Let's take a closer look at three dividend champions that meet these criteria and are well positioned to continue growing their dividend, making them a cornerstone holding in any investment portfolio.

### Emerging markets exposure and a growing risk appetite will boost this bank's performance

For some time now I have been extolling the virtues of the **Bank of Nova Scotia's** ([TSX: BNS](#))([NYSE: BNS](#)) international growth strategy and the solid potential returns this offers both the bank and its investors.

With the bank now investing further in Latin America and strengthening its position in the unsecured consumer lending market, as well as investing in Chilean retailer **Cencosud** and **Canadian Tire's** financial services businesses, its earnings growth potential has improved dramatically.

The bank already pays a quarterly dividend with a healthy yield of 3.5%, which is greater than the risk-free rate of return, and its conservative dividend payout ratio of 45% indicates it is certainly sustainable.

However, even more compelling is that the bank continues to hike its dividend payments, giving its dividend a compound annual growth rate of 4% over the last 20 years. This is well in excess of Canada's annual average inflation rate over that period.

When coupled with the bank's solid growth prospects, it is clear that its dividend will continue to grow, making it a dividend champion for every portfolio.

### **This integrated energy major continues to experience solid production and reserves growth**

It wasn't that long ago that Canadian integrated energy major **Husky Energy** (TSX: HSE) fell into disfavour with investors. However, since the appointment of CEO Asim Gosh in 2010, the company has focused on a growth strategy that now leaves it well-positioned for growth and to unlock considerable value for investors.

It currently pays a quarterly dividend with a yield of 3.5%, which is 120 basis points over the risk-free rate and has a payout ratio of 64%, clearly highlighting the dividend's sustainability. Husky's dividend has also steadily grown in value since its inception in 2001, with it having a compound annual growth rate in excess of 5%, which is well above the average annual rate of inflation for that period.

However, it is not only these factors that make it a dividend champion. The company has some of the most exciting growth prospects of any of the players in Canada's energy patch. It has already established contracts for the sale of natural gas to China from its Liwan gas project, and it is set to boost its presence in Asia, which is shaping up as a critical export market for Canadian oil companies.

This will allow it to sidestep much of the impact from Canada's pipeline crunch and continue growing revenue, cash flow, and its bottom line, enabling it to continue rewarding investors through a steadily appreciating dividend.

### **This oil transportation company is attractively priced and pays a tasty dividend yield**

Despite the negative publicity surrounding **TransCanada's** ([TSX: TRP](#))([NYSE: TRP](#)) Keystone pipeline, the company still offers considerable potential for investors. Although this negative publicity put a lid on its share price, with it appreciating a mere 6% for the year to date, it continues to pay a quarterly dividend with a tasty yield of almost 3.8%, well in excess of the risk-free rate of return.

When coupled with a payout ratio of 73%, highlighting its sustainability, and a compound annual growth rate of 6.5%, it is a particularly attractive investment for income-hungry investors.

The good news doesn't stop there. As Canada's second-largest provider of crude transportation services, with Canadian crude production expected to grow at an annual average rate of 4% over the next 10 years, the company has a virtually guaranteed steadily growing revenue stream. This will boost its bottom line and leave it well-positioned to continue rewarding investors through a steadily appreciating dividend stream.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TRP (Tc Energy)
3. TSX:BNS (Bank Of Nova Scotia)

4. TSX:TRP (TC Energy Corporation)

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