



3 Buy-and-Hold Dividend Champions for Every Portfolio

Description

When building a long-term income focused stock portfolio, I prefer to focus on stocks I call dividend champions. These are companies that have consistently hiked their dividend over the last 20 years, are part of the **S&P TSX 60** (Canada's 60 largest publicly listed companies) and possess a wide economic moat.

I also expect a dividend yield in excess of the risk-free rate, which I believe for long-term investing is best represented by the 1.6% yield on 10-year Canadian government treasuries.

Typically, dividend champions are established companies that have been operating for some time in industries with high barriers to entry and relatively inelastic demand for their products and services.

An integrated energy major with a multifaceted economic moat

One of my favorite dividend champions is integrated energy company **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)), which only recently hiked its dividend payment by a massive 22%. It has paid a steadily growing dividend since 1992, with a healthy compound annual growth rate of 13%, well above Canada's annual average inflation rate for the same period.

With a payout ratio of a mere 43%, the dividend is sustainable and even leaves room for additional dividend hikes, should operating conditions remain favorable.

More impressively, Suncor's recent focus on its return-on-capital-employed, indicating the return it is generating from every dollar it invests and the returns it is generating, which can be passed on to shareholders, continues to improve. For the second quarter 2014, Suncor reported a ROCE of 10.1%, or 2% higher than for the equivalent period in the previous year. This is a substantial improvement, demonstrating Suncor disciplined approach to capital allocation in order to drive higher returns.

Suncor operates in an industry with significant barriers to entry, which along with the inelastic demand for crude oil and growing global demand for energy, gives it a multi-faceted economic moat. When coupled with its integrated operating model, which allows it to better manage price differentials for different crude blends and margins, these trends bode well for further revenue growth and growing

profitability.

Canada's only bank with a significant global presence

For some time now the **Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) has been a firm favorite because of its multi-pronged growth strategy and significant exposure to high growth emerging markets. It currently pays a dividend with a yield of 3.5% coupled with a very sustainable payout ratio of 48%. When these factors are considered in conjunction with its consistently growing dividend with a compound annual growth rate of 4% over the last 20 years makes it an appealing investment.

What makes the bank more appealing is its solid growth prospects with the only major Canadian bank to have any significant exposure to emerging markets, with international operations now generating over 23% of its net income. More importantly the key focus of its international operations is the high growth emerging markets of Colombia, Peru, and Chile. These economies are booming, yet are still under-banked with rapidly growing middle classes, driving increasing demand for credit, insurance, and investment products.

Bank of Nova Scotia also possesses a wide, multi-faceted economic moat that helps to protect it from competition and guarantee additional revenue growth. This is because its dominant size and the significant regulatory barriers to entry reduce competition. That bodes well for further record profits and additional dividend hikes as its international businesses mature.

Growing energy demand almost guarantees this pipeline company's success

My final pick is midstream services provider to the energy patch **Enbridge Inc.** ([TSX: ENB](#))([NYSE: ENB](#)). Enbridge has consistently paid a dividend since 1953 and regularly hiked the dividend over the last 20 years, giving it a compound annual growth rate of 9%. All of which sees the pipeline and crude transportation giant now paying a dividend yield of 2.6% coupled with a sustainable payout ratio of 93%.

The ongoing strength of Enbridge's of business can be attributed to the dominant position it holds in the patch. It's responsible for transporting 56% or more than half of all of Canada's petroleum exports to the U.S. This allows Enbridge to continue reporting solid results, with second quarter 2014 net earnings beating the consensus analyst forecast by almost 3% at \$0.40 per share.

But it is the company's dominant market share, continually expanding portfolio of oil and gas pipeline infrastructure, growing Canadian crude production, and the relatively inelastic demand for crude that makes it a compelling investment. All of these factors virtually guarantee further revenue and cash flow growth, which should translate into a firmer bottom line and additional dividend hikes over time.

Each of these three companies offers investors sustainable and consistently growing dividends and the ability to maintain their competitive advantage while growing revenue and the bottom line. This makes them key additions to any long-term investment portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:ENB (Enbridge Inc.)
6. TSX:SU (Suncor Energy Inc.)

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Date

2025/09/18

Date Created

2014/08/26

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