

## Your Instant 3-Stock Dividend Growth Portfolio

### Description

Building a diversified portfolio of Canadian stocks is relatively easy if investors focus on three key characteristics: growth, diversification, and financial stability. Dividends are also an important factor to consider as they have made up a third of the total returns of the S&P TSX Composite Index since 1956.

Here are three stocks from different sectors that pay healthy dividend yields and compound annual growth rates in excess of Canada's annual average inflation rate. Each possesses a solid economic moat that protects its competitive advantage and future revenues while being financially stable — in fact, they are among Canada's 60 largest listed companies.

#### The Bank of Nova Scotia

Canada's second-largest mortgage lender by market share, **The Bank of Nova Scotia** ([TSX: BNS](#)) ([NYSE: BNS](#)) is a must-have addition to any income-focused growth portfolio. More importantly, The Bank of Nova Scotia pays a consistently growing dividend with a juicy yield of 3.7%, which with a payout ratio of 45% remains sustainable, with the bank having hiked its dividend three times over the last year alone.

The bank's fiscal third-quarter 2014 (calendar second-quarter) results were not as strong as some analysts desired, but its growth prospects are among the best of Canada's banks. This is because it is the only Canadian bank with a solid international footprint, giving it a solid presence in some of the most underbanked and fastest-growing economies in Latin America including Colombia, Peru, and Chile.

Management has also boosted the bank's risk appetite by expanding the bank's unsecured consumer lending portfolio through the acquisition of a 20% stake in **Canadian Tire Corp.**'s financial services division and a 51% stake in Chile's largest retailer **Cencosud SA**'s consumer lending business. Over time, these strategies will pay off for the bank and should start contributing significant earnings growth, leading to further dividend hikes.

Finally, the bank — by virtue of its size, dominant market share, and its presence in a highly regulated industry with high barriers to entry — has a solid, multifaceted economic moat, which helps to protect its competitive advantage. This should allow it to further protect future revenues, again boosting its earnings and contributing to further dividend hikes.

#### Fortis Inc.

Diversified Canadian utility **Fortis Inc.** ([TSX: FTS](#)) is hard to pass up as a core stock in any income-focused growth portfolio — if only for two of its key attributes: the company's ever-growing but sustainable dividend and its wide, multifaceted economic moat.

Fortis currently pays a quarterly dividend yielding 3.7% coupled with a sustainable payout ratio of 84%.

Its dividend has consistently grown since inception in 1972, giving it an impressive compound annual growth rate of 6%. But it is Fortis' wide, multifaceted economic moat and its geographically diversified portfolio of utilities assets that make it a particularly appealing investment.

When coupled with the inelastic demand for electricity, which is a key component of our modern lives, the company is able to maintain its competitive advantage while continuing to grow revenue even in times of economic uncertainty.

## Telus Corporation

Telecommunications continues to remain one of the fastest-growing and important industries in our information-driven lives. Among Canada's largest telecommunications companies is **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)), which I believe offers the best long-term growth prospects while rewarding investors with a tasty and sustainable dividend yield of 3.8%.

The company is a classic growth stock and continues to build a competitive edge of its competitors including **BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)) and **Rogers Communications Inc.** by reducing its churn rates for wireless customers.

By the end of the second quarter 2014, the churn rate for customers whose postpaid contracts had terminated fell to an eight-year low of 0.90%. Average revenue per user continues to climb for the same period, up 2.2% compared to the equivalent period in the previous year.

Telus also continues to add new wireless customers at a solid rate, particularly compared to the other major telcos. For the same period, Telus' wireless customers both pre- and postpaid jumped 2.2% whereas BCE's only grew 1.1%.

With the growing importance of communications and, in particular, wireless communications and access to information in our everyday lives, Telus' aggressive focus on growing its wireless network and subscribers gives it a competitive advantage.

By investing in only three companies, investors are able to diversify across three major industries, all of which form a core part of our modern lives while obtaining an average dividend yield of 3.7%. More importantly, they boast sustainable yields, solid growth prospects, and a wide economic moat to protect their competitive advantages.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:FTS (Fortis Inc.)

## 7. TSX:T (TELUS)

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