A 6-Stock Dividend Champion Portfolio for 2015

Description

The Canadian stock market has been extremely volatile during 2014. Fortunately, for investors in high-quality, dividend-paying companies, the ride has been relatively smooth. I have written several times in the past year about the selection criteria for dividend champions and proposed a portfolio in early July.

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Today, let's look at the performance of that portfolio and consider the outlook for 2015.

Selection criteria and portfolio construction

The stocks included in the portfolio all have similar characteristics in terms of their excellent long-term dividend payment track records, strong balance sheets, high levels of free cash flow, and ability to maintain dividends even during difficult times.

Portfolio performance reviewed

The companies included in the portfolio are listed in the table below. Although the portfolio was only published in early July, we'll review the performance and risk characteristics for the full year as well as for the past five years as it illustrates key characteristics of the portfolio.

Since the start of 2014, the portfolio would have achieved a total return of 14% compared to a return of 4% for the benchmark, the Thomson Reuters Canada Equity Index. The risk or volatility of the portfolio was also considerably lower than the risk of the benchmark. Over the past five years the total return would have been 105% compared to the 40% return of the benchmark again with volatility considerably lower than the benchmark.

Portfolio composition for 2015

The five stocks identified previously were all from relatively stable economic sectors, have great dividend payment track records, solid balance sheets, excellent cash flows, reasonable growth prospects, and when combined, produce a portfolio with an attractive yield and low volatility. Given the current performance and prospects for 2015, it does not seem to be necessary to make any changes, although I added **H&R Real Estate Investment Trust** (TSX: HR.UN). The portfolio for 2015 is shown below.

Telus Corporation (TSX: T)(NYSE: TU) had a good year with the share price advancing strongly and the dividend growing by 11%. Management is committed to continue to grow the dividend by 10% per year and repurchase shares from the market.

The recent slightly below par results as well as investor concerns about Canadian banking exposure to levered oil producers resulted in a sharp drop in the **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) share price. However, the company has less than 1% of its loan book exposed to oil and gas companies with some additional exposure through consumer loans and mortgage loans. Risk controls are in place and the attractive dividend yield should continue to grow at a high single-digit rate over the medium term.

Under pressure from activist shareholders, **TransCanada Corporation** (TSX: TRP)(NYSE: TRP) recently announced plans to increase dividend growth to 8-10% per year until 2017. This promise is not without risk but the reward sufficiently covers the risk, in my opinion.

Fortis Inc (TSX: FTS) delivered a decent performance for the year with the most recent dividend 6.25% higher than last year. U.S.-based UNS Energy acquisition has also now closed and combined with $9 billion of organic growth opportunities should provide mid-single-digit dividend growth over the medium term. The share price has moved up strongly over the past few months but still offers a reasonable dividend yield of 3.7% and fair growth prospects.

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North West Company (TSX: NWC) provided good results for the most recent quarter and raised the dividend by 4% for the full calendar year. The company remains very profitable and should continue to grow the already attractive dividend by mid-single digits in 2015.

As mentioned above, the only addition to the portfolio is H&R Real Estate Investment Trust, which now has an attractive yield of 6.3% after the share price was dragged down over concerns of portfolio exposures to oil producers in Western Canada. However, only 30% of the income is derived from tenants in Western Canada and most of the exposure is to high-quality tenants on long-term lease contracts.

Company	2015 Expected Dividend Yield*	2015 Expected Dividend Growth*	Dividend Frequency	Main sector exposures	Beta (Vola
Telus Corporation	3.9%	10%	Quarterly	Telecommunications	0.33
TD Bank	3.7%	7%	Quarterly	Retail banking	0.78
TransCanada Corporation	3.7%	7%	Quarterly	Pipelines	0.66
Fortis Inc	3.6%	5%	Quarterly	Utility	0.41
North West Company	4.8%	5%	Quarterly	Consumer staples	0.30
H&R REIT	6.3%	1%	Monthly	Commercial property	0.33
Overall Portfolio	**4.3%**	**5.8%**			**0.47**

*Source: Thomson Reuters

A portfolio that provides regular and growing income

The portfolio listed above should provide a regular and growing dividend income stream to investors for years to come with volatility and risk well below the market average.

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CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:FTS (Fortis Inc.)
3. TSX:HR.UN (H&R Real Estate Investment Trust)
4. TSX:NWC (The North West Company Inc.)
5. TSX:T (TELUS)
6. TSX:TD (The Toronto-Dominion Bank)

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