3 Core Dividend-Paying Companies to Buy Now

Description

This is a diversified mini portfolio of three core companies in my dividend-growth portfolio. They have stable, steady growth that pays a moderate income. They are diversified because the three stocks are from different sectors. They are stable because these businesses have a record of maintaining or even increasing dividends, which is valuable income to shareholders, even in adverse economic environments such as a financial crisis.

In most years, their earnings increased, which supports growing dividends. After all, dividends come from a portion of the earnings. Even if earnings decreased in a year, these companies will be able to at least maintain the dividends because the payout ratios have a cushion.

Without further ado, my mini portfolio consists of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), and **Telus Corporation** (TSX:T)(NYSE:TU).

1. Toronto-Dominion Bank

TD, being one of the Big Five banks in Canada, is familiar to all Canadians. Even during the financial crisis in 2008-09, TD did not cut its dividend, but maintained it. From 2011 to 2015, it hiked the dividend at a compounded annual growth rate (CAGR) of 11.5%.

TD's revenue growth in the past five years was 10.9%, the highest amongst its peers. Revenue growth is always a good indicator of business growth.

From 2004 to 2014, TD's EPS grew at a a CAGR of 9%. I intentionally used a 10-year period because if I said 2007, then the result would be more biased because the growth would be lower due to the 15% of earnings reduction in fiscal year 2008.

If I started from 2008, then the result would be biased because pf outsized earnings growth coming out of the recession. So, I decided to use a longer period to smooth out the bumps.

2. Enbridge Inc.

Enbridge is a leading pipeline company that stores and transports oil and gas, but that’s not all. It also owns some renewable energy assets, including wind farms and solar energy operations. Enbridge can generate more than 2,200 megawatts of green energy.

In the last decade its EPS grew at a CAGR of 10.7%. More importantly, its cash flow has steadily increased during that period as well, and that’s why it has been able to continue increasing its dividends.

The company has raised dividends for 19 years in a row. That includes the period of the financial crisis. From 2004 to 2014, it increased its dividends by an annual rate of 11.8%.

Enbridge is a recession-resilient company. Its EPS increased by 4% in 2008 and a whopping 26% in 2009!

3. Telus Corporation

Telus is Canada’s fastest-growing telecommunications company. Other than having high customer loyalty, it also has a healthcare department that deals with health records, pharmacy management, and claims and benefits management.

From 2004 to 2014, Telus grew its earnings at a CAGR of 11.8%. In the same period, Telus’ dividend increased by a CAGR of 16.5%. However, its payout ratio simultaneously expanded from 41% to 63%.

Can Telus continue growing dividends at a 10% rate? The telecom projects EPS growth to be 4-13% this year. That’s a wide range.

On its website, Telus officially stated that it expects to continue growing dividends at a rate of 10% per year through 2016, and its long-term dividend payout ratio guideline is between 65-75%.

With a payout ratio of 66%, Telus has room to expand its payout ratio to grow its dividend at the target rate even if earnings do fall short at the lower end of the expected range this year.

In conclusion

I believe all three companies offer essential products and services and are leaders in their industries. So, they should provide a smoother ride for investors in a down market. Even when a recession occurs, they’re great businesses that bounce back first and come out stronger.

Is now a good time to buy these companies? TD and Telus are priced fairly. On the other hand, using the price-to-cash-flow metric, Enbridge is priced at a discount. And long-term investors should be happy to pick up its shares starting at the 3.3-3.5% yield.

From the historical record and company estimates, I expect to get a conservative long-term total return of 9% if I were to start an equal-weight portfolio with these companies.

CATEGORY

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TU (TELUS)
4. TSX:ENB (Enbridge Inc.)
5. TSX:T (TELUS)
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