Want Dependable Income? Invest in Telus Corporation and Cineplex Inc.

Description

With nearly 10 million Canadian baby boomers either retiring or on the cusp of their golden years, there's a huge demand for investments that pay dividends, particularly those with demonstrated dividend growth.

Just look at the alternatives. Owning a rental property will barely throw off enough cash flow to cover the interest on the mortgage. Even if you have the cash to buy one outright, it's still not very attractive. GIC yields are lackluster at best, even if you lock up your money for five years. Government bonds are even worse, and corporate bonds aren't much better.

For most investors that leaves just one choice, and that's stocks. But in a world where there are thousands of different companies in North America alone that pay dividends, the amount of choice out there can be overwhelming. Which companies have truly sustainable dividends with the potential to grow?

Let's take a closer look at two companies I think every income investor should be examining closely: **Telus Corporation** (TSX:T)(NYSE:TU) and **Cineplex Inc.** (TSX:CGX).

Telus

There are a couple of things that investors really like about Telus. It has terrific wireless numbers, and unlike many competitors, it's actually growing television subscribers.

Let's look at the wireless side of the business first. Telus is by far Canada's leader in churn, an industry-specific term that looks at how many people jump from one wireless provider to another. Telus's churn rate has been consistently under 1% for a while now, which it has accomplished by offering competitive plans, and by giving frontline sales staff the freedom to offer dissatisfied customers incentives to stick around.

And then there's the television part of the company. Because Telus is only a recent entrant into the television business, its cable and satellite services are growing, while competitors like **Shaw Communications** are seeing a slight decline in the number of subscribers, shrinking by about

2% per year.

Telus is growing television subscribers in a couple of ways. Firstly, it’s borrowing ideas from its wireless division by giving customers a free television or video game system in exchange for signing up for a three-year contract. It’s also discounting its price for a period of six months for new customers and moving into new areas. Considering how television is essentially a commodity, it’s obvious that many folks are switching from competing services to Telus.

These two factors are helping Telus’s earnings. In 2014 the company earned $2.31 per share, which was an increase of approximately 15% compared with 2013. And 2015 is expected to be even better, with earnings expected to come in at $2.65 per share, according to analysts. Needless to say, that’s easily enough for the company to cover its $0.42 per share quarterly dividend.

Cineplex

Back when big-screen TVs and advanced sound systems started making an appearance in the average person’s basement, pundits everywhere called for the movie theatre to become the next Blockbuster. Why would anyone go to the movies when a great movie watching experience could be had at home?

Turns out there are lots of reasons. People value going out to watch a movie, which makes it more of an experience. You can’t get that movie theatre popcorn out of a microwave at home. And unless you’re into illegal downloading, you’re stuck going to a theatre if you want to watch the latest blockbuster on opening weekend.

Cineplex has done a terrific job diversifying away from the traditional model of showing movies and selling snacks. Many of its theatres have features like sit-down restaurants, games rooms, and show alternate events. Additionally, the company has other streams of revenue, including partnering with **Bank of Nova Scotia** (Scotiabank) to issue a loyalty credit card, selling movies via its own online store, and selling ads shown before the show.

This has translated into solid revenue gains. Since the end of 2011, revenue at the company is up approximately 25%, and net earnings are up nearly 50%. The dividend is also up nicely, rising from $1.28 per share in 2011 to $1.56 this year. That’s good enough for a 3.2% current yield. It’s also a monthly dividend, which is a nice bonus for retirees.

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