3 Stocks Following the 10% Rule

Description

Are you following the 10% rule? It's okay if you've never heard of it — I made it up.

Too often, I read about dividend investors who're either preoccupied with yield or are focused solely on owning dividend-paying stocks that consistently grow their annual dividends.

Are you going to get hung up on how the Toronto Maple Leafs eventually get to the Stanley Cup again (my apologies to Leaf haters) or will you just enjoy it? I know I won't get caught up in the details.

Well, the 10% rule is just like that.

While the ultimate long-term goal is a 10% annual total return with a 2%/8% split, if, over the next five years, I achieve an 11% annual total return with 2.2% from dividends and 8.8% from capital appreciation, I'd be ecstatic — especially when smart people like **BlackRock, Inc.** CEO Larry Fink believe annual investor returns for the foreseeable future will be in the in mid to low single digits.

So, I've put together a list of three stocks (market cap > $500 million) that are following the 10% rule by currently yielding 2% or more and who've achieved annual total returns of 10% or more in four out of the last five years, and who I believe will repeat the performance over the next five years.

It's a high bar for sure, but these three companies make the cut.

Intertape Polymer Group (TSX:ITP)

In November 2015, the maker of duct tape and all sorts of other boring but useful products for both consumer and industrial use caught the ire of activist investors; instead of bowing to them, it simply delivered better results, which has translated into a higher stock price.

In the past five years, Intertape's stock has achieved an annual total return of 50.4% with all five years in positive territory, including a 38.5% return in 2016. I recommended ITP in July when it was up 16% more than halfway through the year; it finished the second half by delivering another 22% of capital appreciation.

Currently yielding 3%, I expect its future stock returns to be much closer to 10% annually than the 50% returns it's averaged the past five years. Down 3.1% year-to-date, it's going to have to work hard the rest of the year to meet the 10% rule; I'm confident it can do it.

New Flyer Industries Inc. (TSX:NFI)

The Winnipeg-based bus manufacturer's CEO, Paul Soubry, was recently named CEO of the Year by the *National Post*. And for good reason. Although the CEO made the top of the list because of New Flyer's two-year annual return of 243%, none of this could happen without Soubry's leadership skills — something that was evident from the first day he took over in 2009.

Mark Chipman, who oversees the Winnipeg Jets for owner David Thomson, has nothing but good things to say about Soubry: "I have had the view that Paul Soubry is the most talented CEO in the city of Winnipeg for some time," Chipman told the *Winnipeg Free Press* in November while discussing Soubry's award. "He is such a rare combination of intelligence and hard work and he's a man of the people."

Now the number one transit bus and motor coach manufacturer in North America, I expect Soubry and company to continuing delivering for shareholders over the next five years. Currently yielding 2.3%, this could be the best long-term investments available on the TSX.

Premium Brands Holdings Corp. (TSX:PBH)

Although I no longer eat meat, I used to love both its Piller's and Freybe pepperoni sticks. The company has grown revenues through acquisitions and annual organic growth of between 6% and 8%. Premium Brands has gone from $146.2 million in revenue in 2001 to $1.7 billion in the trailing 12 months ended September 30, 2016. In that time, it's seen free cash flow per share blossom; it now sits at $3.39 per share, ensuring that it can easily pay the $1.52 in annual dividends.

While I wouldn't call PBH stock cheap — it has a free cash flow yield of 5% — its growth in both the top and bottom line over the past decade suggests management, led by CEO George Paleologou, who's been in the top job since 2008 and president since 2001, understands the specialty food business and will continue to deliver for shareholders.

In the past five years, it's generated annual total returns of 10.0%, 39.4%, 13.2%, 62% and 84.6% between 2012 and 2016. While it might not hit 10% total return in 2017, I expect it will do so over the long term.

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2. TSX:NFI (NFI Group)
3. TSX:PBH (Premium Brands Holdings Corporation)

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