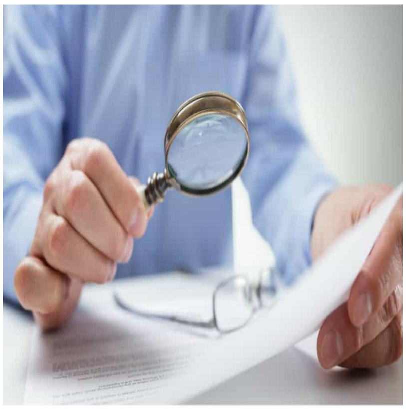

1 Steady Dividend Stock Worth Considering in a Defensive Portfolio

Description

Canada is home to numerous companies that pay strong, steady dividends. Many of these are well known in sectors such as the telecoms, the pipelines, and banking sectors. But there are also several dividend gems in the TSX that investors may not have heard of — companies whose products they may use every day.

Domtar (TSX:UFS)(NYSE:UFS) is a dividend-paying company with a long history and a sufficiently strong balance sheet. Domtar has two reportable business segments: Pulp and Paper and Personal Care. With its pulp, the company produces a wide array of products from standard printing paper to adult diapers.

Of the two segments, the Pulp and Paper segment was up the most, increasing revenues by 16% year over year. Management expects that paper sales should continue to grow in the coming quarters, as price increases are introduced and begin to take effect. The Personal Care segment was not quite as successful, up by 4% over the same period. Even so, there were some bright spots, with adult incontinence sales volumes up by 7%. Cash flows from operating activities were strong, up 46% over the same period last year.

Domtar has a long dividend-growth history, which it continued this year with a 4.8% increase announced on February 2018. The company now yields 3.24% at the current share price — a good yield when combined with its capital appreciation occurring over the previous months. The company has a good balance sheet, with very little debt due in the short term. That being said, it does have a fair amount of long-term debt, although this debt appears manageable given the company's cash flow.

While it is Canadian based, the company has a number of operations in the United States. Its American production facilities may insulate it somewhat from the effects of a trade war, but the company faces other risks. Its products have competition. The commoditized paper industry, for one, is not a high-growth area, and the Personal Care segment competes with some rather large, international companies.

As a dividend stock, Domtar has a good track record of dividend payments. The company has been raising its dividend steadily for several years, and it appears willing to continue to do so. The company also trades at just over its book value. And given the fact that it has continued to trend upwards steadily for years, it should provide some capital appreciation.

Domtar is not going to be an exciting stock, but it should be a steady one. Between its dividend growth and steady capital appreciation, this company should be a steady holding that cautious investors can feel relatively safe occupying a place in their portfolios. Furthermore, it provides a degree of diversification with businesses in the United States and various product offerings.

If you are a defensive investor looking for steady, growing income, definitely look at Domtar as a potential candidate to add to your portfolio. While it does have some debt and faces competition from other companies in similar industries, its track record has shown that it has been a reliable holding over the long term.

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