Why now is the time for Canadian Dividend Companies

Central banks around the globe are set to continue interest rate cuts this fall ending an era of high borrowing costs and savings rates. This month it is expected that the US Federal Reserve (Fed) will join others in cutting key rates. Rates that have held at levels not seen since before the Financial Crisis of 2007-2008. The Bank of Canada (BoC) has lowered rates from 5% to 4.25, its third straight cut of .25% with many more anticipated over the next year.

What does this mean for investors? With the end of the 5% GIC returns and other savings type products, these funds are starting to find a new home in once beaten down dividend companies. Considering that Canadian companies traditionally pay higher yields and were damaged more during the surge in interest rates, it makes sense that lower rates would start to make them more attractive. I suspect we started to see the beginnings of that in July with many high dividend paying companies rallying. We expect to see this rotation continue into high yielding Canadian Equities, specifically Utilities, Real Estate, Financials and Telecoms.

It certainly will never be a straight line as a continued drop in rates will depend on many factors, but I like our current portfolio positioning not only from an opportunity standpoint but also for its defensive characteristics. Patiently, we collect the dividend while holding the company and benefit from the growth in shares as more monies find a new home. Simply, what makes most assets go higher is more buyers than sellers. The tide has turned, and we believe it's time for Canadian Dividend Companies.

Another reason we favour dividends is they tend to be a sign of a financially healthy and stable business. Last quarter many of our portfolio holdings increased their dividends with some examples below:

Company	Recent % dividend increase	5 year % cumulative increase
OpenText Corp.	5%	50.34%
Brookfield Infrastructure Partners LP	5.88%	25.27%
Tourmaline Oil Corp.	6.06%	191.66%
Johnson & Johnson	4.2%	30.52%

*From Morningstar.ca Sep. 4th,2024

I thought I'd share 3 Canadian Dividend Payers in your portfolio and why we like them for your interest.

FCR.UN – First Capital REIT

First Capital REIT is a developer, owner and operator of grocery-anchored, open-air centres in neighbourhoods in Canada's populated centers. The company's focus is on creating thriving neighbourhoods that create value for businesses, residents, communities, and investors.

FCR.UN has been popular among investors as confidence in the prospects of near term BoC & U.S. Fed rate cuts has increased. With a current dividend yield of 4.89%, FCR.UN attracts income-seeking investors that need to find a new home for their GIC/money market funds previously yielding 5%. Fundamentally, lower interest rates also help FCR.UN as 47.5% of operations are funded by debt. Lower rates will result in a lower interest expense and may provide more confidence to investors.

FTS - Fortis

Fortis owns and operates eight utility transmission and distribution subsidiaries in Canada and the United States, serving more than 3.4 million electricity and gas customers. The company has smaller stakes in electricity generation and several Caribbean utilities. Subsidiary ITC operates electric transmission in seven U.S. states, with over 16,000 miles of high-voltage transmission lines in operation.

Fortis is one of the great dividend-paying companies in Canada and has paid consecutive quarterly dividends for over four decades with a current yield of 3.89%. In recent years, FTS has raised the dividend faster than most of its peers and is targeting 4%-6% dividend growth over the next 5 years. The company is also primed to benefit from elevated power demand associated with data centers and manufacturing facilities due to increased interest in AI learning models.

T – TELUS

Telus is one of the Big Three wireless service providers in Canada, with over 10 million mobile phone subscribers nationwide constituting about 30% of the total market. It is the incumbent local exchange carrier in the western Canadian provinces of British Columbia and Alberta, where it provides internet, television, and landline phone services.

Telus is the stock with the highest Dividend Yield in our portfolio at 6.92%, and we continue believe this company provides one of best combinations of dividend growth & yield in Canada. Despite tough price competition in the telecom sector, we believe Telus will be an attractive name with potentially sustainable 7% dividend growth (declining debt leverage & payout ratio) as the BoC lowers interest rates. Telus is also diversifying further, now with 20% of sales coming from non-telecom businesses.

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