

Dividend growth stories

Geoff Ho, CFA – Director, Canadian Equities, Portfolio Advisory Group

Global markets have had a phenomenal run over the past six months, with the S&P/TSX Composite Index posting capital appreciation of 22.5% and total return including dividends of 24.3%. It is not very often that share prices experience such dramatic and rapid advances as this was a rare confluence of severely oversold conditions, unprecedented fiscal and monetary policies aimed at stimulating economic activity, resilient and opportunistic emerging markets, and excess liquidity looking for a home. On a relative basis, dividend income has certainly been a small component of the overall gain during this recent period.

Taking a longer term perspective, however, we continue to highlight the importance of dividend income as a component of total investment return. For example, between 2001 to the present, the S&P/TSX Composite rose by 27.6% while the total return including dividends came in at 54.7%. Accordingly, while it is important to have exposure to cyclical stocks and growth companies to position for the next economic cycle, it is equally important to enhance returns with a core list of strong dividend paying stocks in the portfolio.

For this reason, we have updated the table of Toronto-listed companies that have increased dividends in either 2008 or 2009. We continue to believe that dividend increases are often a good indicator of management's and board of directors' confidence in the strength of the company's capital position and operating outlook. Companies that have consistently done so are likely a good place to start when looking for survivors and leaders once economic growth resumes. Furthermore, these companies also serve as a good starting point for investors looking for dividend growth stories.

At this stage and at current valuations, here are some of the strategies and views that we would like to share pertaining to the list of companies that have increased dividends in 2008 and/or 2009:

- We remain constructive on the energy sector over a longer-term period. While high inventory levels and negative seasonality factors may cap near-term gains, we believe that supply-demand dynamics are extremely supportive for 2010 and beyond. Particularly for crude oil, low prices and lack of available credit over the past two years have limited the amount of exploration and production investment necessary to maintain and increase production when economic growth resumes and consumption increases. Combined with the International Energy Agency's forecast that OPEC will operate near full capacity by 2013, we believe that unconventional resources such as oil sands in Canada will become evermore important in an environment of constrained supply growth and rising demand. Accordingly we believe that Canadian energy companies are well positioned to benefit from this secular shift. Two of the energy-related names that stand out from the attached list include **Suncor Energy (SU)** and **Husky Energy (HSE)**. On the back of its acquisition of Petro-Canada, Suncor recently doubled its dividend to \$0.40 per year. This remains one of our favourite names in the sector given its status as a leading integrated company with strong growth potential. The company is a holding within the Canadian Core Portfolio. With regards to Husky Energy, the company's dividend policy has been volatile over the past twelve months but nonetheless, current valuations appear attractive on a relative and absolute basis. This represents another intriguing integrated name with a strong balance sheet and a 3.7% dividend yield.
- Despite current noise surrounding new wireless entrants and concerns over future growth trajectory, we continue to favour the telecom sector. The group offers a reliable income stream through dividends (with yields near their highest level in five years) and a rare combination that offers defensive characteristics and exposure to discretionary and business spending. All three Canadian telecom service providers appear on the list we compiled and our order of preference

Dividends

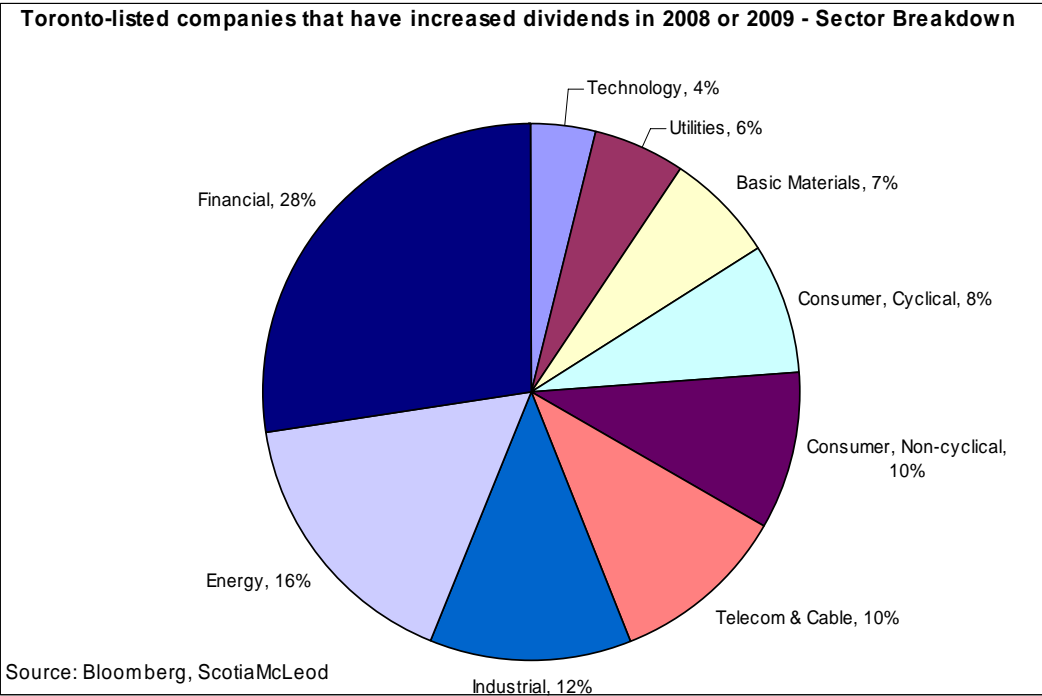
remains **Rogers Communications (RCLB)**, **BCE (BCE)**, followed by **Telus (T)**. The sector is trading anywhere between 3.3x to 5.3x trailing cash flows (equivalent to cash flow yield of 18% to 30%) and boasts very reasonable payout ratios, thereby providing ample room for the possibility of higher dividends in the future.

- The Canadian financial system has clearly demonstrated leading business practices and superior earnings stability over the past several quarters. Based on current valuations and dividend yields of most Canadian banks and life insurance companies, one could argue that the positive traits and earnings potential have yet to be fully discounted in share prices. In the previous cycle, strong return on equity and good earnings visibility allowed many financials to regularly reward shareholders with dividend increases. Now that the worst of the economic storm appears to be over, and with many banks and lifecos boasting excess capital, this trend could resume over the medium term. Some of the companies on our list that coincide with our Canadian Core Guided Portfolio include **Bank of Nova Scotia (BNS)**, **Brookfield Asset Management (BAM.A)**, **Great West Lifeco (GWO)**, and **Sun Life (SLF)**.
- Perhaps reflecting the trends of a typical business cycle, it is worth noting that the industrial sector is the only group that has not announced any dividend increases over the past two quarters. In general, many of these companies tend to thrive most later in the cycle as pricing power tends to be most prevalent when corporate profits and business spending are at a peak. That said, the “Industrial” classification tends to be fairly broad based and we would highlight that companies such as **CP Railway (CP)** and **CN Railway (CNR)** are both early cycle plays that enable investors to appropriately position for a pick-up in economic activity.
- The ScotiaMcLeod Canadian Income Plus Guided Portfolio serves as a good reference point for investors seeking income-oriented investment ideas to enhance returns and to capitalize on the tax advantages of dividends. We note that 12 of the 15 holdings in the ScotiaMcLeod Income Plus Portfolio have increased their dividends in 2008 and/or 2009.

There are five new additions to the attached list this quarter (Kinross, Suncor, BPO Properties, DundeeWealth, and Tecsys). At the same time, the only company that previously made the list that cut their dividend in Q3 was Manulife Financial. Recall that back in August, the company stunned the market with a 50% dividend cut as management aimed to build “fortress levels of capital” despite having an extremely strong capital ratio.

We reiterate that the list includes a number of companies that have a small market capitalization and may therefore be illiquid. As well, there are a number of companies on the list that are more cyclical and/or commodity-related in nature (16% energy, 8% consumer discretionary, 7% basic materials) and as such, we would not necessarily expect to see stable dividends over a longer-term period. Notwithstanding these potential exceptions, the list identifies a number of large capitalization stocks that have an excellent track record of operational performance and that have increased dividends over the past year. By no means will any of these companies necessarily continue to increase dividends in the near term (in fact, depending on economic outlook and commodity prices, there may even be a risk of dividend cuts) but nonetheless, this list should help to identify some of the stronger companies that could be added to a portfolio depending on risk tolerance, time horizon as well as sector and asset allocation.

Dividends



Dividends

Companies that have increased dividends in 2008 or 2009 (page 1 of 2)

ScotiaMcLeod Income Plus Portfolio		Quarterly Dividend Rate							Implied Yield (Oct. 19/09)	Sector
		Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2 '09	Q3 '09		
	ABX	0.10	0.10	0.10	0.10	0.10	0.10	0.10	1.0%	Basic Materials
	CCO	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.7%	Basic Materials
	FNV	0.06	0.06	0.06	0.06	0.07	0.07	0.07	1.0%	Basic Materials
	IRC	0.008	0.008	0.01	0.01	0.01	0.01	0.01	0.9%	Basic Materials
	K	0.02	0.02	0.02	0.02	0.02	0.02	0.025	0.4%	Basic Materials
	MX	0.14	0.155	0.155	0.155	0.155	0.155	0.155	3.1%	Basic Materials
	RGL	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.6%	Basic Materials
✓	BCE	0.37	n.a.	n.a.	0.365	0.385	0.385	0.405	6.3%	Communications
	CCA	0.10	0.10	0.10	0.12	0.12	0.12	0.12	1.6%	Communications
	CGO	0.07	0.07	0.07	0.08	0.08	0.08	0.08	1.3%	Communications
	CJR.B	0.14	0.15	0.15	0.15	0.15	0.15	0.15	3.5%	Communications
	GLN	0.0825	0.0825	0.0825	0.0825	0.0825	0.09	0.09	2.6%	Communications
	MHR	0.23	0.24	0.24	0.24	0.24	0.255	0.255	2.3%	Communications
	MKX	0.02	0.02	0.02	0.02	0.02	0.025	0.025	1.1%	Communications
✓	RCL.B	0.25	0.25	0.25	0.25	0.29	0.29	0.29	4.0%	Communications
✓	SJR.B	0.18	0.18	0.20	0.20	0.21	0.21	0.21	4.2%	Communications
✓	T	0.45	0.45	0.45	0.475	0.475	0.475	0.475	5.8%	Communications
✓	TRI	0.27	0.27	0.27	0.27	0.28	0.28	0.28	3.3%	Communications
	GBT.A	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.0%	Consumer, Cyclical
	CTC.A	0.21	0.21	0.21	0.21	0.21	0.21	0.21	1.5%	Consumer, Cyclical
	PJC.A	0.04	0.04	0.04	0.04	0.04	0.045	0.045	2.0%	Consumer, Cyclical
	CTU.A	0.13	0.15	0.175	0.175	0.175	0.175	0.175	5.4%	Consumer, Cyclical
	RCH	0.08	0.08	0.08	0.08	0.08	0.08	0.08	1.5%	Consumer, Cyclical
✓	SC	0.215	0.215	0.215	0.215	0.215	0.215	0.215	2.0%	Consumer, Cyclical
	THI	0.09	0.09	0.09	0.09	0.10	0.10	0.10	1.3%	Consumer, Cyclical
	UNS	0.1075	0.1075	0.1075	0.1075	0.1165	0.1165	0.1165	1.7%	Consumer, Cyclical
	ADW.A	0.075	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	4.2%	Consumer, Non-cyclical
	CTY	0.12	0.15	0.15	0.15	0.15	0.17	0.17	3.8%	Consumer, Non-cyclical
	EH	0.085	0.085	0.085	0.085	0.085	0.085	0.085	3.6%	Consumer, Non-cyclical
	EMP.A	0.17	0.175	0.175	0.175	0.175	0.185	0.185	1.7%	Consumer, Non-cyclical
	HLF	0.05	0.05	0.055	0.0625	0.0625	0.0625	0.07	3.7%	Consumer, Non-cyclical
	LAS.A	0.13	0.215	0.215	0.215	0.215	0.27	0.27	2.4%	Consumer, Non-cyclical
	MRU.A	0.13	0.13	0.13	0.13	0.1375	0.1375	0.1375	1.6%	Consumer, Non-cyclical
	RBA	0.08	0.08	0.09	0.09	0.09	0.09	0.10	1.6%	Consumer, Non-cyclical
	SAP	0.12	0.12	0.14	0.14	0.14	0.14	0.145	2.2%	Consumer, Non-cyclical
	TCL.A	0.08	0.08	0.08	0.08	0.08	0.08	0.08	2.4%	Consumer, Non-cyclical
	BNE	0.67	0.77	0.96	0.78	0.40	0.38	0.38	5.4%	Energy
	CNQ	0.10	0.10	0.10	0.10	0.105	0.105	0.105	0.6%	Energy
✓	ENB	0.33	0.33	0.33	0.33	0.37	0.37	0.37	3.5%	Energy
	ECA	0.40	0.40	0.40	0.40	0.40	0.40	0.40	2.5%	Energy
	ESI	0.0825	0.0825	0.0825	0.085	0.085	0.085	0.085	2.1%	Energy
	HSE	0.33	0.40	0.50	0.50	0.30	0.30	0.30	3.8%	Energy
	IMO	0.09	0.09	0.10	0.10	0.10	0.10	0.10	0.9%	Energy
	NXV	0.03	0.05	0.05	0.05	0.05	0.05	0.05	0.8%	Energy
	PNG	0.22	0.22	0.22	0.22	0.23	0.23	0.25	5.3%	Energy
	PSI	0.05	0.05	0.06	0.06	0.06	0.06	0.06	1.9%	Energy
	SCL.A	0.06	0.065	0.065	0.065	0.065	0.07	0.07	1.0%	Energy
	SU	0.05	0.05	0.05	0.05	0.05	0.05	0.10	1.0%	Energy
	TLM	0.05	0.05	0.05	0.05	0.05625	0.05625	0.05625	1.2%	Energy
✓	TRP	0.34	0.36	0.36	0.36	0.38	0.38	0.38	4.6%	Energy
	ZCL	0.03	0.03	0.03	0.03	0.03	0.03	0.03	3.2%	Energy

Dividend increase

Dividend decrease

1. For companies that pay dividends on an annual or semi-annual basis, we have pro-rated the amount to quarterly data.

Source: Bloomberg, ScotiaMcLeod

Dividends

Companies that have increased dividends in 2008 or 2009 (page 2 of 2)

ScotiaMcLeod Income Plus Portfolio		Quarterly Dividend Rate						Implied Yield (Oct. 19/09)	Sector	
		Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2 '09	Q3 '09		
	ACD	0.055	0.055	0.065	0.065	0.065	0.065	0.065	4.4%	Financial
	AGF.B	0.20	0.25	0.25	0.25	0.25	0.25	0.25	6.0%	Financial
✓	BNS	0.47	0.49	0.49	0.49	0.49	0.49	0.49	4.3%	Financial
	BPP	0.15	0.15	0.15	0.15	0.15	0.15	0.30	3.0%	Financial
	BAM.A	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.2%	Financial
	CWB	0.10	0.11	0.11	0.11	0.11	0.11	0.11	2.0%	Financial
	CSF	0.03	0.03	0.03	0.065	0.065	0.065	0.065	2.8%	Financial
	DW	0.02	0.02	0.02	0.02	0.02	0.02	0.035	1.2%	Financial
	EFH	0.06	0.06	0.06	0.06	0.07	0.00	0.00	0.0%	Financial
	EDV	0.05	0.05	0.06	0.09	0.03	0.00	0.00	0.0%	Financial
	FFH	1.25	1.25	1.25	1.25	2.00	2.00	2.00	2.2%	Financial
	GS	0.11	0.11	0.11	0.12	0.12	0.12	0.12	2.4%	Financial
✓	GWO	0.2925	0.2925	0.3075	0.3075	0.3075	0.3075	0.3075	4.9%	Financial
	GCG	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	1.9%	Financial
	HCG	0.12	0.12	0.13	0.13	0.13	0.14	0.15	1.7%	Financial
	IGM	0.4875	0.4875	0.5125	0.5125	0.5125	0.5125	0.5125	5.0%	Financial
	IAG	0.225	0.225	0.245	0.245	0.245	0.245	0.245	3.3%	Financial
	IIC	0.31	0.31	0.31	0.31	0.32	0.32	0.32	3.8%	Financial
	IAM	0.02	0.02	0.02	0.02	0.02	0.00	0.00	0.0%	Financial
	MFC	0.24	0.24	0.26	0.26	0.26	0.26	0.13	2.4%	Financial
	MRD	0.13	0.13	0.085	0.085	0.05	0.05	0.05	2.0%	Financial
	MRC	0.14	0.14	0.14	0.15	0.15	0.15	0.15	2.1%	Financial
	POW	0.24	0.29	0.29	0.29	0.29	0.29	0.29	4.3%	Financial
	PWF	0.31	0.34	0.34	0.35	0.35	0.35	0.35	4.9%	Financial
	QC	0.03	0.05	0.05	0.05	0.00	0.00	0.00	0.0%	Financial
✓	SLF	0.36	0.36	0.36	0.36	0.36	0.36	0.36	4.8%	Financial
✓	TD	0.57	0.59	0.59	0.61	0.61	0.61	0.61	3.8%	Financial
	WFC	0.125	0.125	0.075	0.075	0.075	0.075	0.10	5.4%	Financial
	WES	0.01	0.01	0.0107	0.0107	0.0107	0.0107	0.0107	1.8%	Financial
	ALC	0.35	0.45	0.45	0.45	0.45	0.45	0.45	2.4%	Industrial
	CAE	0.01	0.03	0.03	0.03	0.03	0.03	0.03	1.3%	Industrial
	CCL.B	0.14	0.14	0.14	0.14	0.15	0.15	0.15	2.7%	Industrial
	CP	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	2.0%	Industrial
	CNR	0.23	0.23	0.23	0.23	0.2525	0.2525	0.2525	1.9%	Industrial
	ET	0.05	0.08	0.08	0.08	0.08	0.08	0.08	2.2%	Industrial
	XTC	0.0175	0.0175	0.0175	0.0175	0.0175	0.0175	0.0175	4.0%	Industrial
	FTT	0.10	0.11	0.11	0.11	0.11	0.11	0.11	2.6%	Industrial
	MLX	0.16	0.16	0.16	0.16	0.16	0.16	0.16	6.2%	Industrial
	SNC	0.12	0.12	0.12	0.12	0.15	0.15	0.15	1.3%	Industrial
	SJ	0.08	0.08	0.09	0.09	0.09	0.09	0.09	1.6%	Industrial
	TIH	0.14	0.14	0.14	0.14	0.15	0.15	0.15	2.4%	Industrial
	WFI	0.17	0.18	0.18	0.18	0.18	0.19	0.19	2.9%	Industrial
	CMG	0.10	0.10	0.12	0.14	0.15	0.18	0.18	4.6%	Technology
	CSU	0.045	0.045	0.045	0.045	0.054	0.054	0.054	0.6%	Technology
	ESL	0.025	0.025	0.025	0.025	0.025	0.03	0.03	1.8%	Technology
	TCS	0.01	0.01	0.01	0.01	0.01	0.01	0.0125	2.4%	Technology
	ACO.X	0.24	0.24	0.24	0.24	0.25	0.25	0.25	2.3%	Utilities
	AUI	0.04	0.05	0.05	0.05	0.05	0.05	0.05	1.9%	Utilities
	CU	0.3325	0.3325	0.3325	0.3325	0.3525	0.3525	0.3525	3.6%	Utilities
	EMA	0.2375	0.2375	0.2375	0.2525	0.2525	0.2525	0.2725	4.8%	Utilities
	FTS	0.25	0.25	0.25	0.25	0.26	0.26	0.26	4.1%	Utilities
	TA	0.27	0.27	0.27	0.27	0.29	0.29	0.29	5.5%	Utilities

Dividend increase

Dividend decrease

1. For companies that pay dividends on an annual or semi-annual basis, we have pro-rated the amount to quarterly data.

Source: Bloomberg, ScotiaMcLeod

Dividends

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

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Ratings

1-Sector Outperform

The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

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Risk Rankings

Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted

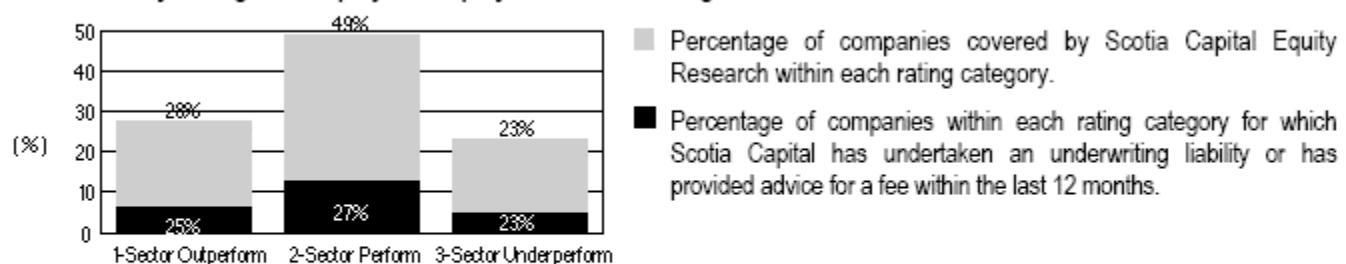
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*As at January 31, 2007.

Source: Scotia Capital.

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Dividends

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None.

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Scotia Capital Restriction -- U.S. (American) **Bank of Nova Scotia**

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Comparative Canadian Bank Information

Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	1-Sector Outperform	Low	\$65.00
Bank of Nova Scotia	BNS	2-Sector Perform	Low	\$55.00
CIBC	CM	3-Sector Underperform	Low	\$75.00
National Bank	NA	2-Sector Perform	Low	\$75.00
Royal Bank	RY	1-Sector Outperform	Low	\$75.00
Toronto-Dominion Bank	TD	2-Sector Perform	Low	\$80.00

