

## Dividends

April 6, 2009

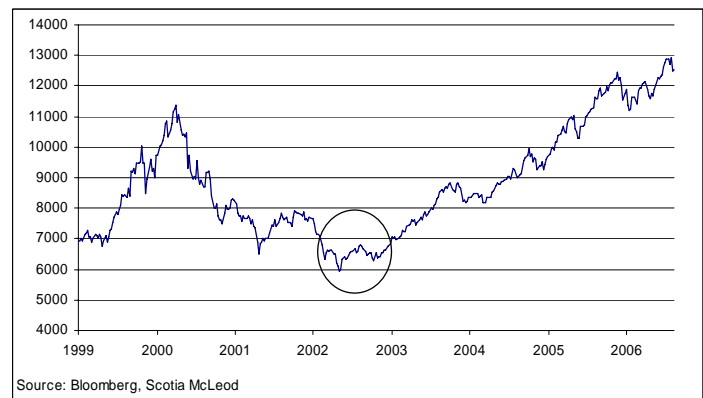
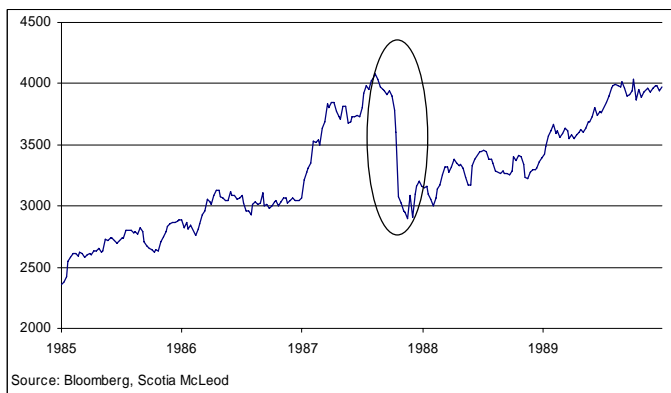
### Dividends – Getting paid to wait!

Geoff Ho, CFA – Canadian Equity Advisor, Portfolio Advisory Group

#### Potential for range bound activity once market settles

To state the obvious, the end of this bear market will either result in a quick V-reversal, where the market snaps back and regains a significant portion of its losses, or we will enter a phase of consolidation, marked by range bound activity over an extended period. Examples of the former scenario include Black Monday in October 1987 as well as the burst of the dot-com era in 2001 where markets were able to quickly recover after a relatively short period of time following major declines in global equity indices. By contrast, as evidenced in the 1930's and 1970's, the market often enters into a long period whereby the market oscillates within a general range as investors seek direction and liquidity. Driven by severe systemic problems in the economy, the Great Depression in 1929 and a case of severe stagflation in 1973/1974 brought upon some of the longest periods of consolidation following major bear markets.

#### *S&P/TSX Composite Index – Quick reversals following sharp declines*

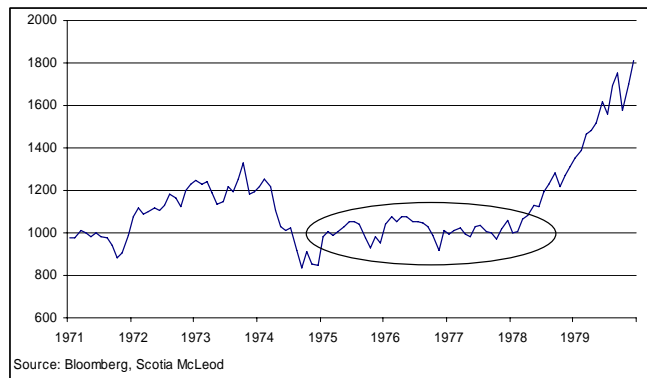
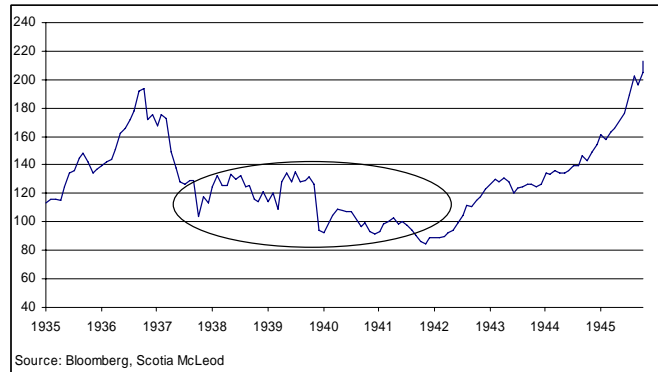
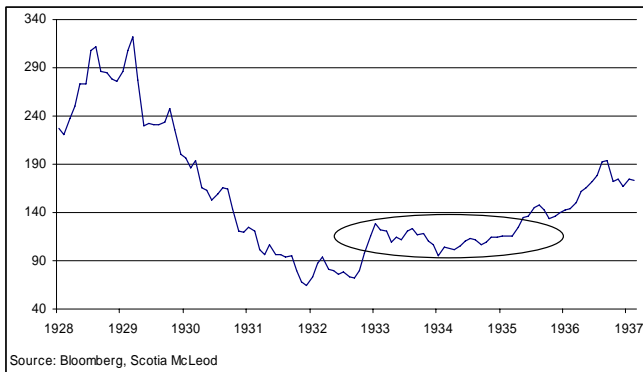


In this latest stock market downturn, one can argue that the collapse of the housing market and financial system is as dire as any prior economic meltdown we have seen and if history repeats itself, we could be in for another period of uninspiring market performance. While the intention of this publication is not to debate and compare the severity of this contraction relative to past cycles, we thought it would be useful to merely highlight the possibility of an extended period of flat to oscillating market activity. As well, it is worth noting that this publication is not intended to be a call on the market bottom as we continue to believe that ample economic risks remain, rather, it is meant to be a forward looking piece that will help generate ideas to position a portfolio appropriately for what lies ahead.

If we are looking at an extended period of range bound activity, particularly for investors with lower risk tolerance and longer term investment time horizon, we believe that emphasis should be placed on enhancing income potential as sustainable capital gains will likely be elusive.

## Dividends

### *S&P/TSX Composite Index – Extended periods of oscillation following a bear market*



### **The implicit and explicit importance of dividends**

In principle, a company's decision to pay regular dividends to shareholders has normally been perceived as an indicator of balance sheet strength and cash flow stability. This implication is important particularly in an environment where both the economy and credit continues to contract and where the financial state of a company can often translate into a matter of survival. Companies with relatively less leverage and good cash generating abilities have the capacity to weather the economic storm without the need for additional financing and are better positioned relative to their peers to capitalize on opportunities once the market recovers.

Dividends are also important in that they enhance an investor's return. Generally, the stable nature of dividend payments provides greater certainty when it comes to cash flow and returns. This stands out markedly in a flat trending market given the challenge of capital gain generation. Additionally, with the possibility that bond yields will remain fairly low and accommodative for some time, attractive yields on select equities provide great opportunities for income generation and diversification from other "traditional" income-oriented products such as bonds and preferred shares. Essentially, dividends provide a "bird in the hand" as shareholders are paid to wait for some market direction while retaining capital appreciation opportunities once the market and economy begins its next cycle.

## Dividends

Looking back at the periods following severe market contractions, we see that dividends have had a material impact on overall total returns (we use the S&P 500 Index as limited information was available on the TSX Composite):

General period of consolidation following a market correction	Holding Period Return	
	Price appreciation	With Gross Dividends Reinvested
1938 to 1940	0.28%	16.29%
1976 to 1979	19.68%	44.34%
Nov. 2008 to Present	-13.03%	-11.83%

Source: Bloomberg

### Companies signalling confidence in business, despite economic and market headwinds?

Given the severity of the current economic downturn, continued weakness in housing and labour statistics, and the restructuring of the financial system, it is entirely plausible that the market remains directionless for a long period of time once a bottom has been reached. Even if a majority of the selling pressure has declined, and even if earnings and valuation of equities have truly reached a trough, this deleveraging process has shaken the confidence and absolute wealth of most investors and as such, it could take quite some time for risk appetite and capital to return to the market.

Following up on the themes discussed above, we have compiled a list of Toronto-listed companies that have increased dividends in either 2008 or 2009. Managements' and the Board of Directors' decision to raise the amount paid to shareholders despite the economic and market headwinds faced over the past twelve months is perhaps a testament of their confidence in the business. While there are 92 names on the list, a number of the companies 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, 7% consumer discretionary, 7% basic materials) and as such, we would not necessarily expect to see stable dividends over a longer-term period. Notwithstanding, 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 as demonstrated by Husky Energy – HSE) but nonetheless, this list may help to identify some of the stronger companies that could potentially be added to a portfolio depending on risk tolerance, time horizon as well as sector and asset allocation.

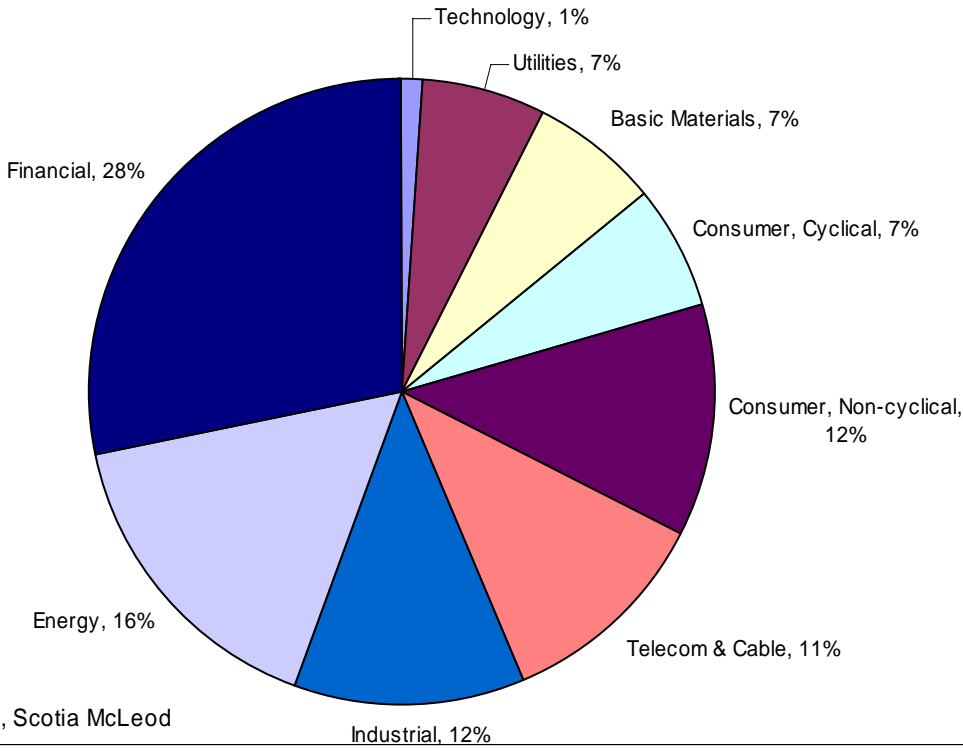
### Recommended strategy

We continue to favour a more cautious stance at the moment and prefer the more defensive- or staple-oriented names. There are a number of companies that have increased dividends over the past two years that coincide with our Canadian Equity Recommended List. The names that we would be buyers of today include (in alphabetical order, not preference): Cogeco Cable (CCA), Enbridge (ENB), Fortis (FTS), Great West Lifeco (GWO), Rogers (RCI.B), Shoppers Drug Mart (SC), SNC Lavalin (SNC), and TransCanada (TRP).

As we progress through this economic cycle and when signs of stability arise in the system (financial, housing, labour), we would be inclined to add more beta by looking at a number of the financial and consumer discretionary sectors. As an aside, it is interesting to note that 28% of the list we compiled represents companies in the financial sector; and in our opinion, this further differentiates the sector with its peers south of the border and helps to reiterate the stability of the Canadian financial system.

# Dividends

Toronto-listed companies that have increased dividends in 2008 or 2009 - Sector Breakdown



Source: Bloomberg, Scotia McLeod

## Dividends

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

		Quarterly Dividend Rate					Implied Yield	Sector	
		Q4 '07	Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	(Mar. 31/09)	
ABX	Barrick Gold	0.08	0.10	0.10	0.10	0.10	0.10	0.9%	Basic Materials
CCO	Cameco	0.05	0.06	0.06	0.06	0.06	0.06	1.1%	Basic Materials
IRC	International Royalty	0.008	0.008	0.008	0.01	0.01		2.4%	Basic Materials
MX	Methanex	0.14	0.14	0.16	0.16	0.16		4.5%	Basic Materials
RGL	Royal Gold	0.07	0.07	0.07	0.07	0.07	0.08	0.5%	Basic Materials
YRI	Yamana Gold	0.01	0.01	0.03	0.03	0.03	0.03	1.3%	Basic Materials
BCE	BCE Inc.	0.37	0.37	n.a.	n.a.	0.37	0.39	6.1%	Communications
CCA	Cogeco Cable	0.10	0.10	0.10	0.10	0.12	0.12	1.4%	Communications
CGO	Cogeco Inc.	0.07	0.07	0.07	0.07	0.08	0.08	1.3%	Communications
CJR.B	Corus Entertainment	0.12	0.14	0.15	0.15	0.15	0.15	4.3%	Communications
GLN	Glentel Inc.	0.075	0.083	0.083	0.083	0.083	0.083	4.4%	Communications
MHR	McGraw-Hill Ryerson	0.23	0.23	0.24	0.24	0.24	0.24	2.5%	Communications
RCL.B	Rogers Comm.	0.13	0.25	0.25	0.25	0.25	0.29	3.2%	Communications
SJR.B	Shaw Communications	0.18	0.18	0.18	0.20	0.20	0.21	3.9%	Communications
T	Telus	0.45	0.45	0.45	0.45	0.48	0.48	5.1%	Communications
TRI	Thomson Reuters Corp	0.25	0.27	0.27	0.27	0.27	0.28	3.1%	Communications
GBT.A	BMTC Group	0.08	0.09	0.09	0.09	0.09		2.1%	Consumer, Cyclical
CTC.A	Cdn Tire Corp	0.19	0.21	0.21	0.21	0.21	0.21	1.9%	Consumer, Cyclical
CTU.A	Le Chateau	0.13	0.13	0.15	0.18	0.18		9.4%	Consumer, Cyclical
RCH	Richelieu Hardware	0.07	0.08	0.08	0.08	0.08	0.08	1.8%	Consumer, Cyclical
SC	Shoppers Drug Mart	0.16	0.22	0.22	0.22	0.22	0.22	1.8%	Consumer, Cyclical
THI	Tim Hortons	0.07	0.09	0.09	0.09	0.09	0.10	1.1%	Consumer, Cyclical
ADW.A	Andrew Peller	0.075	0.075	0.083	0.083	0.083	0.083	4.6%	Consumer, Non-cyclical
CTY	Calian Technologies	0.12	0.12	0.15	0.15	0.15	0.15	5.4%	Consumer, Non-cyclical
EH	Easyhome	0.07	0.09	0.09	0.09	0.09	0.09	3.6%	Consumer, Non-cyclical
EMP.A	Empire Co	0.17	0.17	0.18	0.18	0.18		1.4%	Consumer, Non-cyclical
HLF	High Liner Foods	0.05	0.05	0.05	0.06	0.06		3.6%	Consumer, Non-cyclical
LAS.A	Lassonde Industries	0.13	0.13	0.22	0.22	0.22	0.22	2.6%	Consumer, Non-cyclical
MRU.A	Metro Inc.	0.12	0.13	0.13	0.13	0.13	0.14	1.5%	Consumer, Non-cyclical
TAP.B	Molson Coors	0.16	0.16	0.20	0.20	0.20	0.20	1.3%	Consumer, Non-cyclical
RBA	Ritchie Bros	0.08	0.08	0.08	0.09	0.09		1.4%	Consumer, Non-cyclical
SAP	Saputo	0.12	0.12	0.12	0.14	0.14		2.5%	Consumer, Non-cyclical
TCL.A	Transcontinental	0.07	0.08	0.08	0.08	0.08	0.08	3.2%	Consumer, Non-cyclical
AXC	Addax Petroleum	0.05	0.10	0.10	0.10	0.10	0.10	1.9%	Energy
CNQ	Cdn Natural Resources	0.09	0.10	0.10	0.10	0.10	0.11	0.9%	Energy
ENB	Enbridge	0.31	0.33	0.33	0.33	0.33	0.37	3.7%	Energy
ECA	Encana	0.20	0.40	0.40	0.40	0.40	0.40	2.8%	Energy
ESI	Ensign Energy	0.08	0.08	0.08	0.08	0.09	0.09	2.6%	Energy
HSE	Husky Energy	0.33	0.33	0.40	0.50	0.50	0.30	3.9%	Energy
IMO	Imperial Oil	0.09	0.09	0.09	0.10	0.10	0.10	1.0%	Energy
NXY	Nexen Inc.	0.03	0.03	0.05	0.05	0.05	0.05	0.9%	Energy
PNG	Pacific Northern Gas	0.20	0.22	0.22	0.22	0.22	0.23	6.8%	Energy
PSI	Pason Systems	0.04	0.05	0.05	0.06	0.06		1.7%	Energy
PCA	Petro Canada	0.13	0.13	0.13	0.20	0.20	0.20	3.0%	Energy
SCL.A	Shawcor Ltd.	0.06	0.06	0.07	0.07	0.07	0.07	1.4%	Energy
TLM	Talisman Energy	0.04	0.05	0.05	0.05	0.05		1.6%	Energy
TRP	TransCanada	0.34	0.34	0.36	0.36	0.36	0.38	4.6%	Energy
ZCL	ZCL Composites	0.025	0.03	0.03	0.03	0.03	0.03	2.6%	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, Scotia McLeod

## Dividends

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

		Quarterly Dividend Rate						Implied Yield (Mar. 31/09)	Sector
		Q4 '07	Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09		
ACD	Accord Financial	0.06	0.06	0.06	0.07	0.07	0.07	4.5%	Financial
AGF.B	AGF Mgmt	0.20	0.20	0.25	0.25	0.25	0.25	10.5%	Financial
BNS	Bank of Nova Scotia	0.47	0.47	0.49	0.49	0.49	0.49	5.9%	Financial
BAM.A	Brookfield Asset Mgmt.	0.12	0.13	0.13	0.13	0.13	0.13	2.8%	Financial
CWB	Canadian Western Bank	0.10	0.10	0.11	0.11	0.11	0.11	3.6%	Financial
CSF	Cash Store	0.03	0.03	0.03	0.03	0.07	0.07	4.6%	Financial
EFH	EGI Financial	0.05	0.06	0.06	0.06	0.06	0.07	4.1%	Financial
EDV	Endeavour Financial	0.03	0.05	0.05	0.06	0.09	0.03	7.0%	Financial
FFH	Fairfax Financial	0.69	1.25	1.25	1.25	1.25	2.00	2.1%	Financial
GS	Gluskin Sheff	0.11	0.11	0.11	0.11	0.12	0.12	6.5%	Financial
GWO	Great-West Lifeco	0.28	0.29	0.29	0.31	0.31	0.31	5.9%	Financial
GCG	Guardian Capital	0.03	0.04	0.04	0.04	0.04	0.04	3.5%	Financial
HCG	Home Capital Group	0.11	0.12	0.12	0.13	0.13	0.13	2.6%	Financial
IGM	IGM Financial	0.46	0.49	0.49	0.51	0.51	0.51	5.8%	Financial
IAG	Industrial Alliance	0.20	0.23	0.23	0.25	0.25	0.25	4.2%	Financial
IIC	ING Canada	0.27	0.31	0.31	0.31	0.31	0.32	4.0%	Financial
IAM	Integrated Asset Mgmt	0.018	0.02	0.02	0.02	0.02	0.02	8.9%	Financial
MFC	Manulife Financial	0.24	0.24	0.24	0.26	0.26	0.26	5.0%	Financial
MRD	Melcor Developments	0.10	0.13	0.13	0.09	0.09	0.09	7.4%	Financial
MRC	Morguard Corp.	0.14	0.14	0.14	0.14	0.15	0.15	3.4%	Financial
POW	Power Corp.	0.24	0.24	0.29	0.29	0.29	0.29	5.2%	Financial
PWF	Power Financial	0.31	0.31	0.34	0.34	0.35	0.35	5.9%	Financial
QC	Quest Capital	0.03	0.03	0.05	0.05	0.05	0.00	0.0%	Financial
SLF	Sun Life Financial	0.34	0.36	0.36	0.36	0.36	0.36	5.1%	Financial
TD	TD Bank	0.57	0.57	0.59	0.59	0.61	0.61	5.6%	Financial
WES	Western Financial	0.01	0.01	0.01	0.0107	0.0107	0.0107	2.4%	Financial
ALC	Algoma Central	0.35	0.35	0.45	0.45	0.45	0.45	3.5%	Industrial
CAE	CAE Inc.	0.01	0.01	0.03	0.03	0.03	0.03	1.5%	Industrial
CCL.B	CCL Industries	0.12	0.14	0.14	0.14	0.14	0.15	2.4%	Industrial
CP	Cdn Pacific Railway	0.23	0.25	0.25	0.25	0.25	0.25	2.4%	Industrial
CNR	CN Railway	0.21	0.23	0.23	0.23	0.23	0.25	2.3%	Industrial
ET	Evertz Technologies	0.05	0.05	0.08	0.08	0.08	0.08	2.3%	Industrial
XTC	Exco Technologies	0.015	0.0175	0.0175	0.0175	0.0175	0.0175	6.2%	Industrial
FTT	Finning International	0.10	0.10	0.11	0.11	0.11	0.11	3.1%	Industrial
SNC	SNC Lavalin	0.09	0.12	0.12	0.12	0.12	0.15	1.5%	Industrial
SJ	Stella Jones	0.07	0.08	0.08	0.09	0.09	0.09	2.2%	Industrial
TIH	Toromont Industries	0.12	0.12	0.14	0.14	0.14	0.14	2.4%	Industrial
CMG	Computer Modelling	0.08	0.10	0.10	0.12	0.14	0.15	8.8%	Technology
ACO.X	Atco Ltd	0.22	0.24	0.24	0.24	0.24	0.25	2.6%	Utilities
AUI	AltaGas Utility	0.04	0.04	0.05	0.05	0.05	0.05	4.2%	Utilities
CU	Cdn Utilities	0.32	0.33	0.33	0.33	0.33	0.35	3.5%	Utilities
EMA	Emera Inc.	0.23	0.24	0.24	0.24	0.25	0.25	4.5%	Utilities
FTS	Fortis	0.21	0.25	0.25	0.25	0.25	0.25	4.1%	Utilities
TA	TransAlta Corp.	0.25	0.27	0.27	0.27	0.27	0.29	4.8%	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, Scotia McLeod

## Dividends

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We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

#### 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.

##### 2-Sector Perform

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.

##### 3-Sector Underperform

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

#### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

#### 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

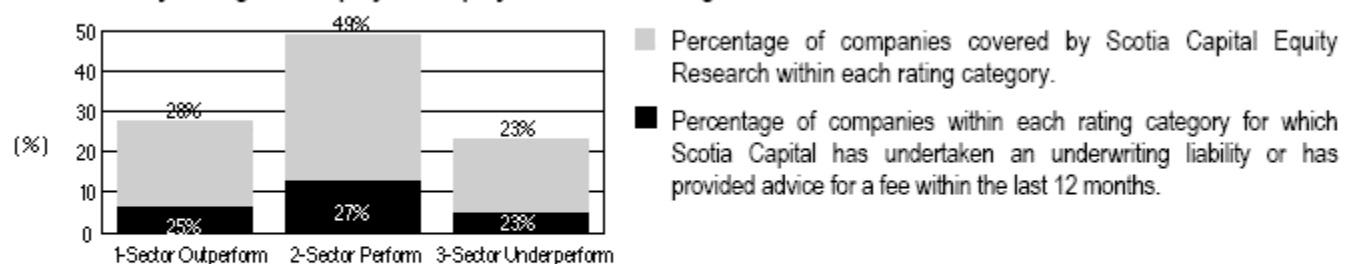
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

##### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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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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## Dividends

### Comparative Canadian Bank Information

Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	2-Sector Perform	Low	\$42.00
Bank of Nova Scotia	BNIS	2-Sector Perform	Low	\$40.00
CIBC	CM	3-Sector Underperform	Low	\$60.00
National Bank	NA	2-Sector Perform	Low	\$50.00
Royal Bank	RY	1-Sector Outperform	Low	\$48.00
Toronto-Dominion Bank	TD	3-Sector Underperform	Low	\$50.00

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