



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

WELCOME to DSR Premium

Dear DSR member,

Thank you for reading our monthly premium newsletter that comes with your subscription to [Dividend Stocks Rock](#).

This is your site and exclusive newsletter. Feel free to send us an email at dividendustries@gmail.com to inquire about more information or to make a suggestion.

Market	Last 30	YTD
S&P 500	0.01%	10.35%
NASDAQ	1.22%	19.37%
DOW JONES	0.24%	11.04%
S&P TSX	0.39%	-0.55%

September Issue

For this issue, we will cover the industrial sector. This sector is often characterized by capital intensive businesses that were founded a hundred years ago. However, there are some very interesting dividend paying stocks.

DSR Premium

1. Welcome to DSR Premium
2. Industrials
3. Best picks
4. Canadian review
5. U.S. review
6. Portfolios Performance

About DSR Premium

The DSR Premium newsletter comes with an exclusive membership to [Dividend Stocks Rock](#).

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



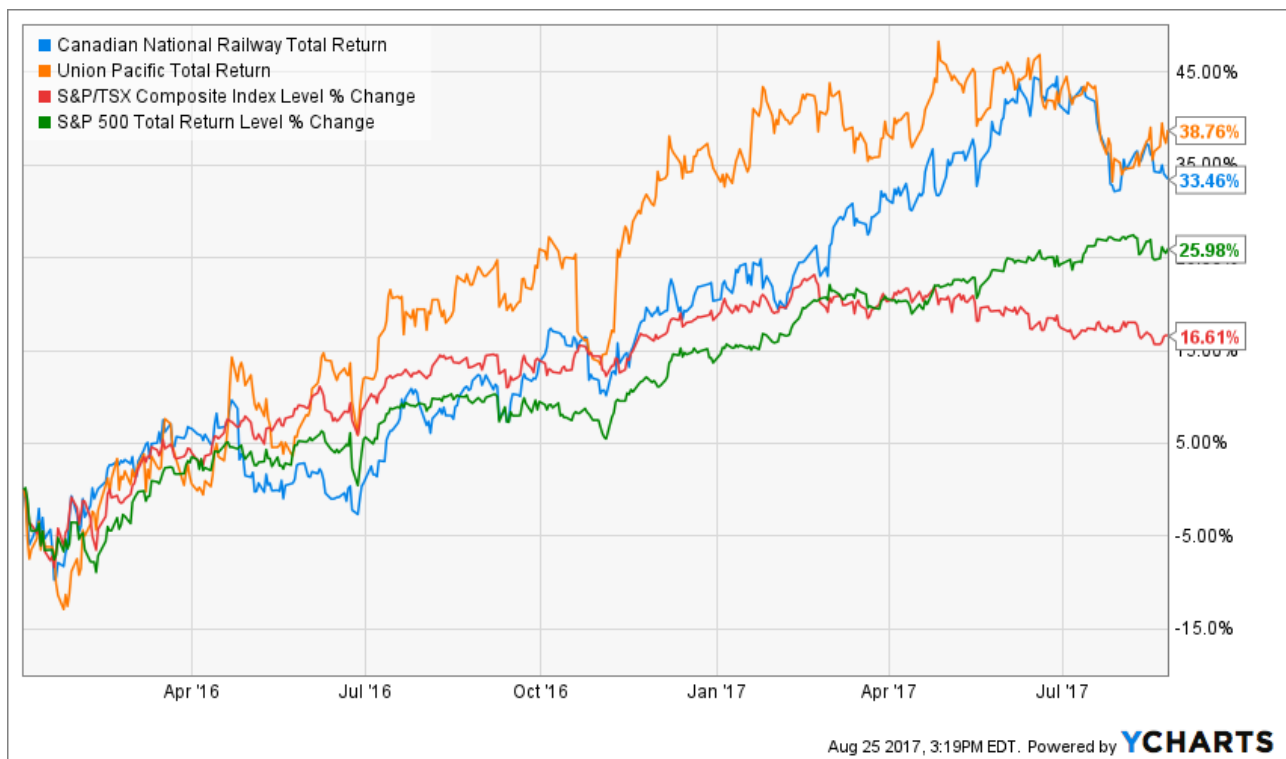
DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Industrial Stocks – Often Forgotten, but that’s the Point isn’t?

I often have the feeling we forget about industrials. There is nothing sexy about them. There is nothing to create hype on the stock market. Even worst, this sector is not seen as a high yielding one. Still, the fact many companies operates through cycles, there are always a few industrials for sale.

During 2016, I’ve covered many railroads and suggested Canadian National Railway (CNR.TO) and Union Pacific (UNP) to be strong buys. They both did very well over the past 20 months compared to the market:



Source: Ycharts

As industrials are often forgotten, there are always a few hidden gems to pick from. The best part is that once you have picked some, you can easily forget them in your portfolio and wait a few years before you take a second look at them. Those companies are often too big and too strong in their field to be threatened by another competitor.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

When I pulled out my report, I was quite surprised to see that out of 49 companies meeting my filter criteria;

- ✓ 27 of them show double-digit revenue growth over 5 years
- ✓ 28 of them show annualized dividend growth rate over 5% over 5 years
- ✓ 24 of them show double-digit EPS growth over 5 years

It seems that many of them are getting out of a low economic cycle at the moment...

In order to help you navigate in this sector, I've pulled out all companies showing the following criteria:

- Dividend yield between 2% and 10%
- 5 year dividend growth positive
- 5 year revenue growth positive
- 5 years EPS growth positive

[You can download the excel spreadsheet here](#)

In the following pages, we have analyzed a few companies in this industry. We covered 3 CDN and 5 US dividend stocks. On the U.S. side, we will not cover 3M Co (MMM) as we've done it many times over the past couple of years (and it is still a very good pick). We will not cover UPS either since it was part of our [August Buy list](#).

We will start with my 2 favorite picks in this sector: Honeywell (HON) and Canadian National Railway (CNR.TO)

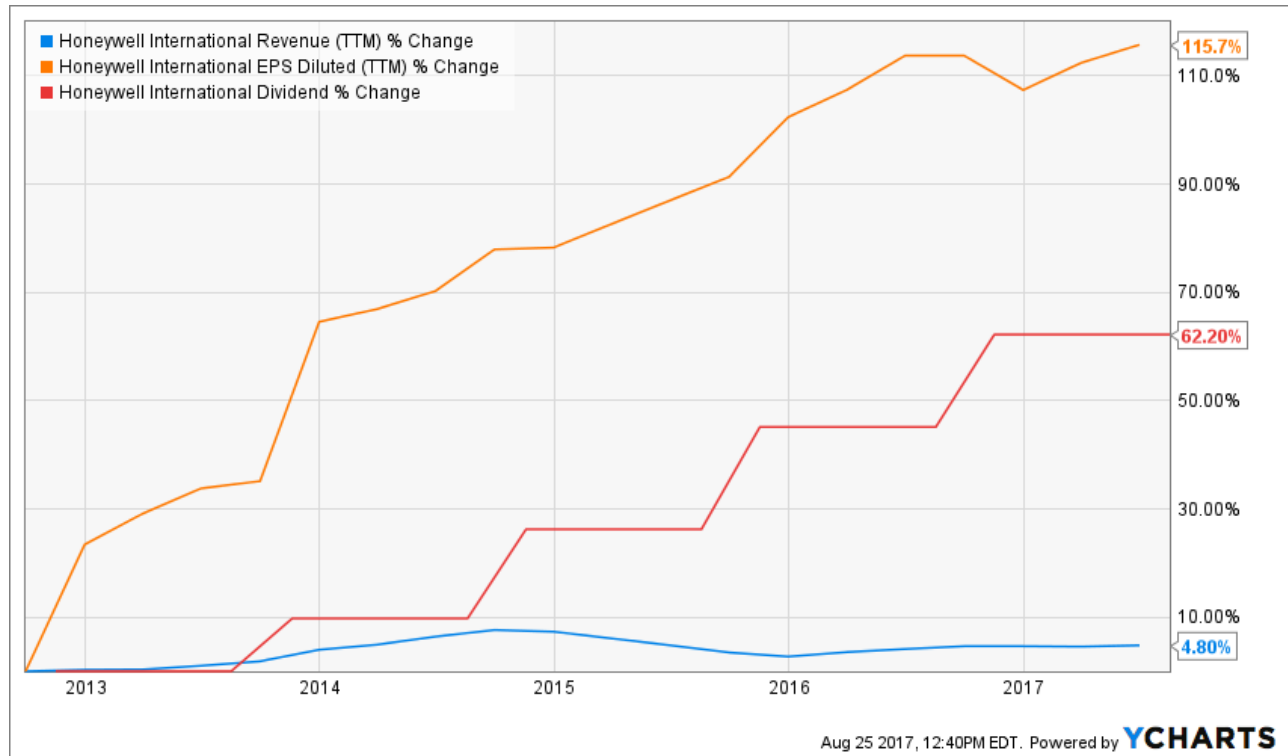
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Honeywell (HON) **Best U.S. Stock Idea**



Business Model

Honeywell invents and manufactures technologies to address some of the world's toughest challenges initiated by revolutionary macrotrends in science, technology and society. The company evolves in three different industries: Aerospace, Automation & Controls as well as Performance Materials & Technology.

I like finding companies I could buy today, put it in a box and forget about for the next ten years. I believe Honeywell is one such company. It benefits from a strong income base coming from the U.S. and is able to use its cash flow to seek growth in other markets where it continues to develop its infrastructure.

The company has put additional focus on software engineering with nearly 11,000 engineers working on software instead of more classic industrial goods. The software business is better as it enables more combinations of services and drives higher margins. Honeywell certainly has some solid ground for future growth.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

An investment in HON is first and foremost an investment in a very strong dividend growth company. You can expect the company to boost its dividend payment significantly in the upcoming 5 years. Therefore, your dividend yield based on your cost of purchase will definitely hit over 3% in short order.

The company's increasing margin will lead to additional profits and definitely an increase in stock price. This is the perfect combination of strong dividend growth and also a stock price growth potential. HON will provide both to investors.

Potential Risks

We already see the automation segment suffering from the oil & gas industry slump. As the oil barrel doesn't seem to go back up anytime soon, we expect this situation to continue for a while. Also, HON is the type of company that grow through acquisition. At this time of the economic cycle, "bargains" are off the tables and future purchases may end-up pricey for nothing. Finally, don't think HON past margin expansion (generated by HOS Gold, their internal efficiency system) will continue in the future. There is a limit to generate additional earnings from the same business.

Dividend Growth Perspective

Honeywell has shown a strong dividend growth history and management has recently shared their 5-year plan (2014-2018) including dividend growth higher than earnings. Since the company expects EPS growth to be in the low double digits, you can expect a very strong dividend growth trend in the future. As both payout ratio and cash payout ratios are at 40%, the growth will not only be strong but also sustainable.

Valuation upside +16%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$373.46	\$186.09	\$123.66
10% Premium	\$342.34	\$170.58	\$113.35
Intrinsic Value	\$311.22	\$155.07	\$103.05
10% Discount	\$280.10	\$139.57	\$92.74
20% Discount	\$248.98	\$124.06	\$82.44

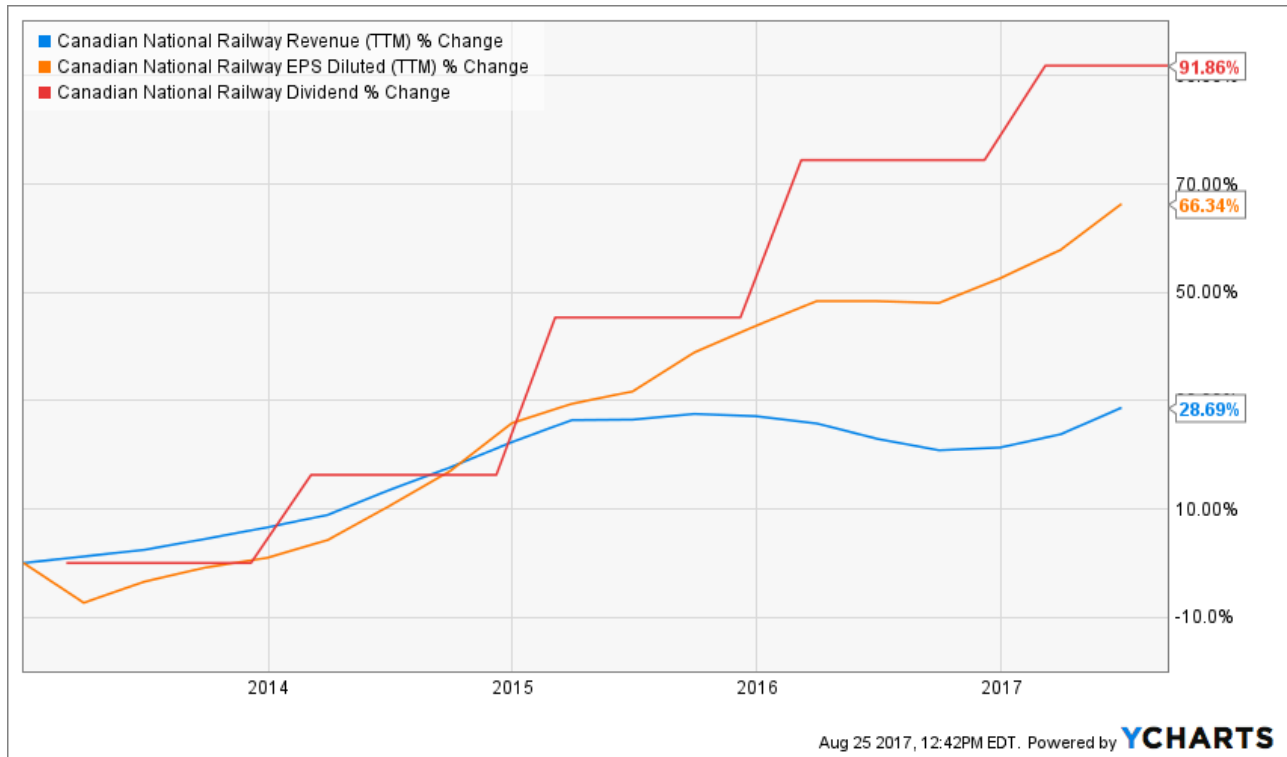
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Canadian National Railway (CNR.TO) **Best Cdn Stock Idea**



Business Model

CNR operates railroads as a mean of transportation of goods. It is a well-diversified company serving 7 different sectors; Intermodal (26%), Automotive (8%), Metals & Minerals (13%), Forest Products (15%), Petroleum & Chemicals (17%), Coal (4%) and Grain & Fertilizers (17%).

Canadian National Railway revenue stagnated for the past two years as most commodities were in a slowdown, starting with the oil bust from 2014. However, through its diversification, management found a way to improve its business and show revenue growth lately. It seems the company is at the end of its down cycle.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

Canadian National Railway is the most productive railroad company with the best operating ratio of the industry (55.1%). At a 1.64% yield, we can't talk about a "strong" dividend payer. However, after digging further, I realized how strong the company's fundamentals are. CNR has a very strong economic moat as railways are virtually impossible to replicate. Therefore, you can count on increasing cash flow coming in each year. Plus, there isn't any better way to transport most commodities than by train.

Potential Risks

While CNR doesn't have many competitors, a constant low gasoline environment doesn't only hurt potential oil shipment, but also open the doors for more trucking transportation competition. It will also be very interesting to see what will happen now that famous CEO Hunter Harrison has crossed the border to manage CSX (CSX). He is the guy behind both CNR and CP dramatic efficiency improvement over the past decade.

Dividend Growth Perspective

CNR shows 21 consecutive years with a dividend increase in 2017. Over the past decade, CNR has maintained an annualized dividend growth of 14.73%. In other words, CNR doubles its payouts every 5 years or so. With both payout and cash payout ratios under 40%, you can expect additional double-digit dividend growth for the years to come. The company is definitely on track for solid return.

Valuation upside +14%

Intrinsic Value	Discount Rate (Horizontal)		
	8.00%	9.00%	10.00%
Margin of Safety			
20% Premium	\$276.46	\$136.89	\$90.42
10% Premium	\$253.42	\$125.48	\$82.89
Intrinsic Value	\$230.39	\$114.07	\$75.35
10% Discount	\$207.35	\$102.66	\$67.82
20% Discount	\$184.31	\$91.26	\$60.28

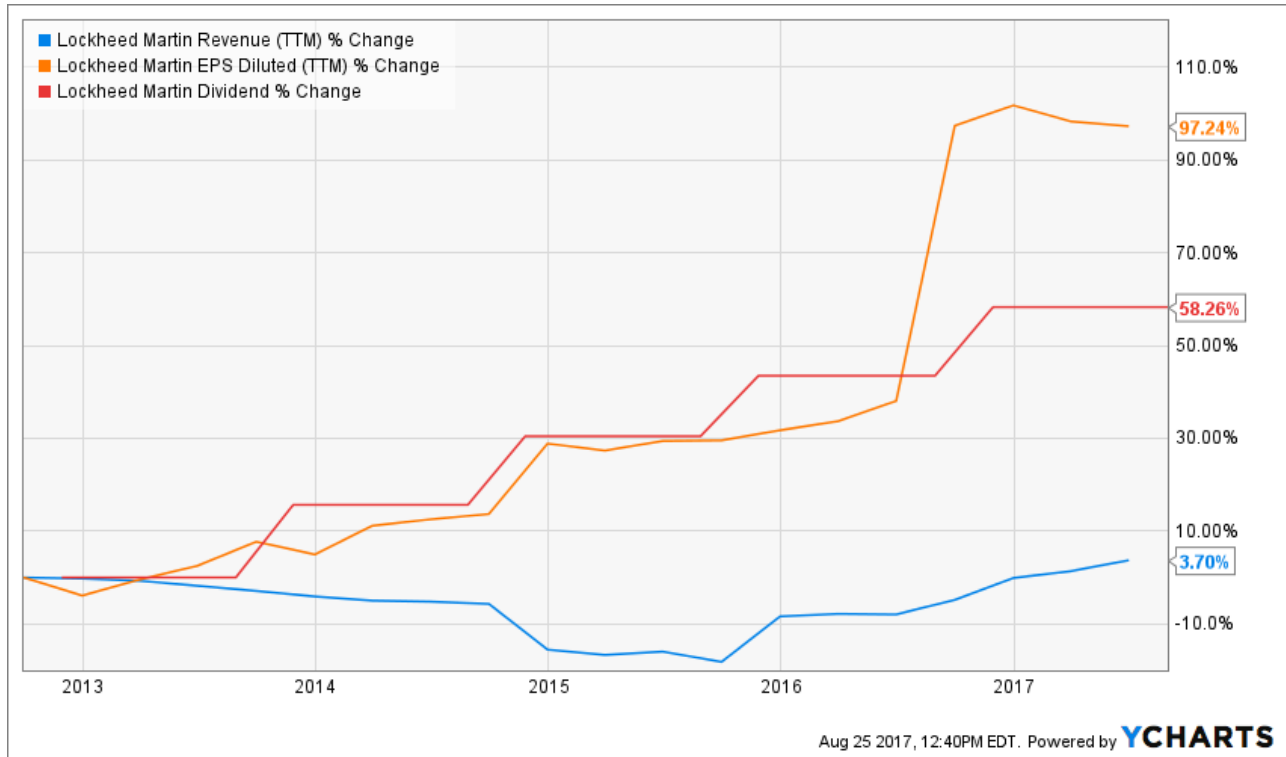
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Lockheed Martin (LMT)



Business Model

Lockheed Martin has gone through a major facelift over the past 5 years. Threatened by budget sequestration (80% of LMT revenues comes from the U.S. Government), LMT optimized its structure and boosted its earnings significantly. Their latest move was to acquire Sikorsky Aircraft helicopter division, making LMT the largest military helicopter manufacturer in the world.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

It seems LMT is surfing through the perfect storm. As conflicts are rising around the globe, the Congress accepted Lockheed Martin to seek out for international opportunities. This means the company could enlarge its international sales by doing business offshore. I expect LMT to grow not only its earnings in the upcoming years, but its revenue as well.

A recent article in the [National Post](#) refers to LMT trying to “steal” the Canadian order of 18 fighter jet from Boeing (BA). We are talking about a potential order of \$1.4 - \$1.5 billion. I like this mentality of jumping on business occasion like management just did with Canada. This doesn’t mean they will win the order, but it gives us an example of their mentality.

Potential Risks

While LMT evolves in a nearly monopoly (who else is making F-35?), so it only has one big client. Budget sequestration is always a possibility. After all, the company showed a lot of struggles growing its revenues prior to the acquisitions of Sikorsky Aircraft helicopter division.

Dividend Growth Perspective

It seems LMT is surfing through the perfect storm. As conflicts are rising around the globe, the Congress accepted Lockheed Martin to seek out for international opportunities. This means the company could enlarge its international sales by doing business offshore. I expect LMT to grow not only its earnings in the upcoming years, but its revenue as well.

Valuation upside -7%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$509.30	\$338.43	\$253.05
10% Premium	\$466.85	\$310.23	\$231.97
Intrinsic Value	\$424.41	\$282.03	\$210.88
10% Discount	\$381.97	\$253.83	\$189.79
20% Discount	\$339.53	\$225.62	\$168.70

*Please note the upside potential is negative in this case. However, management hasn’t issued their dividend raise this year. Assuming a 8% dividend growth rate for 2017, the intrinsic value will be raise to \$304.50.

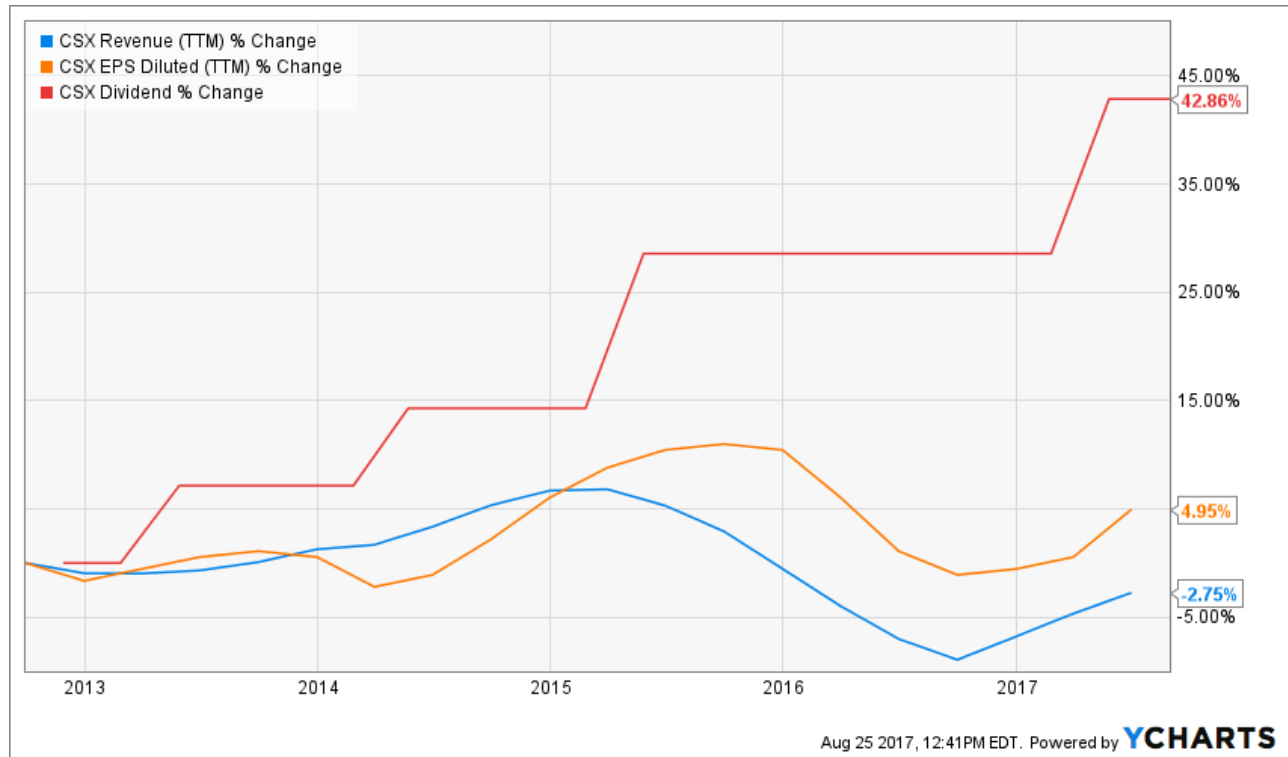
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

CSX (CSX)



Business Model

CSX is a railroad company operating over 21,000 miles of railways giving them access to 70 ports and nationwide transloading and distribution services. CSX was among the most affected railroads owner-operator by the latest down cycle in commodities due to its strong presence in the coal transportation business.

As coal represented 13% of CSX volume at the end of 2016, management mentioned in their annual report this sector was down 21% from 2015. CSX now concentrates on time-sensitive merchandise transportation (43%) and intermodal (44%). The merchandise segment includes Agricultural & Food Products, Fertilizers, Chemicals, Automotive, Metals & Equipments, Minerals and Forest Products. Their most important sub-segment is Chemicals transportation with 11% of CSX 2016 volume.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

The story of new CSX CEO Hunter Harrison is phenomenal. During his career, he literally transformed three railroad companies improving their operating ratio drastically. His recent accomplishment was made with Canadian Pacific (CP.TO). Within a few years in position, he brought CP operating ratio close to the industry standard's Canadian National Railroad. Interesting enough, he is the guy behind CNR's success story.

The worst seems behind CSX as the coal business drop has been factored in and the coming of a new CEO has been more than welcomed by investors (the stock is up by 70% since the beginning of the year). Believe it or not, there is still room for a little more growth!

Potential Risks

Right now, railroad maintenance expenses represent 18% of CSX revenues. This is a big play to think that HH will turn this situation around and put CSX among the most profitable railroads operators in North America. While the Coal business has already suffered over the past couple of years, it is not impossible to see additional slowdown in this sector.

Dividend Growth Perspective

We believe HH will be able to achieve its fourth railroad facelift with CSX and we've used a similar dividend growth rate we use for our CNR analysis. The cash payout ratio is high at the moment (94%), but the payout ratio is very low (38%). While the company will improve its margins under new management, the dividend will continue to grow strongly without jeopardizing the future of the company.

Valuation upside +13%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$134.04	\$66.37	\$43.84
10% Premium	\$122.87	\$60.84	\$40.19
Intrinsic Value	\$111.70	\$55.31	\$36.53
10% Discount	\$100.53	\$49.78	\$32.88
20% Discount	\$89.36	\$44.25	\$29.23

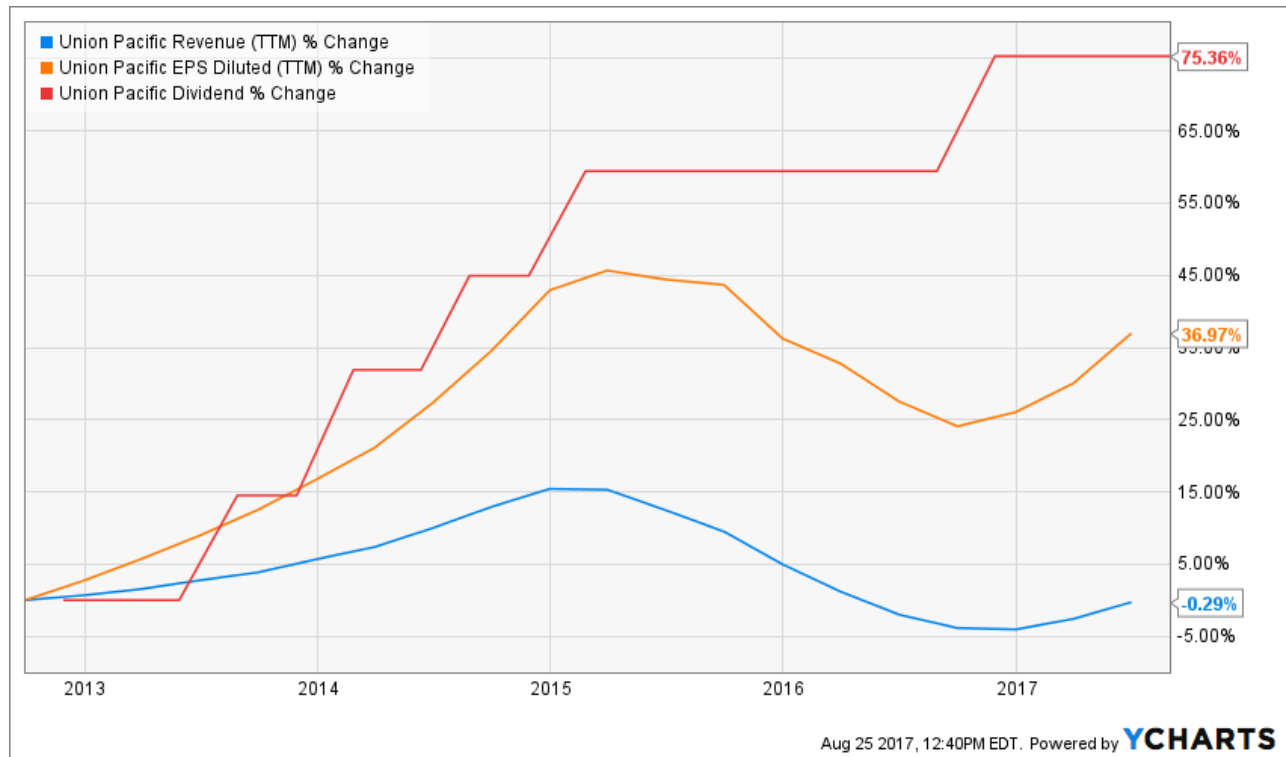
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Union Pacific (UNP)



Business Model

Union Pacific has been part of our Buy list for some times and it was proven a great investment. Union Pacific is a transportation company focusing on railroads. Its Union Pacific Railroad covers 23 states across the Western 2/3 of the US. UNP operates 32,000 miles of rail with 8,500 locomotives. While the company used to be being very active in the coal industry, it serves various sectors: 10% for Automotive, 16% Agricultural Products, 14% Chemicals, 19% Intermodal, 21% Industrial Products and 20% Energy. When one reads “energy”, it is clearly stated in the 2016 annual report that this refers to “coal transportation”.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

UNP railway system is more attractive than CSX in our view as it covers the Western part of the U.S. Therefore, UNP has the front stage tickets for all Asian import/export business. Since UNP transports cheaper coal than CSX, this part of their business hasn't been hurt as bad as other transportation.

UNP shows better operating ratios than CSX and its maintenance expenses are considered to be 15% of its revenue (compared to 18% for CSX). UNP should continue to post solid results based on growing demand for transportation. Finally, UNP yield is about 0.70% bigger than CSX's.

Potential Risks

Then again, we are looking at potential coal continuous slow down (while this will affect UNP in a lesser manner). UNP shows an important part of their revenues coming from industrial good transportation (20%) and 10% for automotive, another down cycle in these segments could hurt UNP business.

Dividend Growth Perspective

While UNP dividend payments went through an important increase over the past 10 years, we've used conservative figures for my Dividend Discount Model. Since UNP is highly concentrated in industrial and automotive (+ coal transportation in the package), we thought a dividend growth rate in the range of 6-7% was a better fit. Considering both payout and cash payout ratios are under 50%, you can count on steady increases in the upcoming years.

Valuation upside +13%

Intrinsic Value	Discount Rate (Horizontal)		
	8.00%	9.00%	10.00%
Margin of Safety			
20% Premium	\$286.34	\$143.69	\$96.12
10% Premium	\$262.48	\$131.72	\$88.11
Intrinsic Value	\$238.62	\$119.75	\$80.10
10% Discount	\$214.75	\$107.77	\$72.09
20% Discount	\$190.89	\$95.80	\$64.08

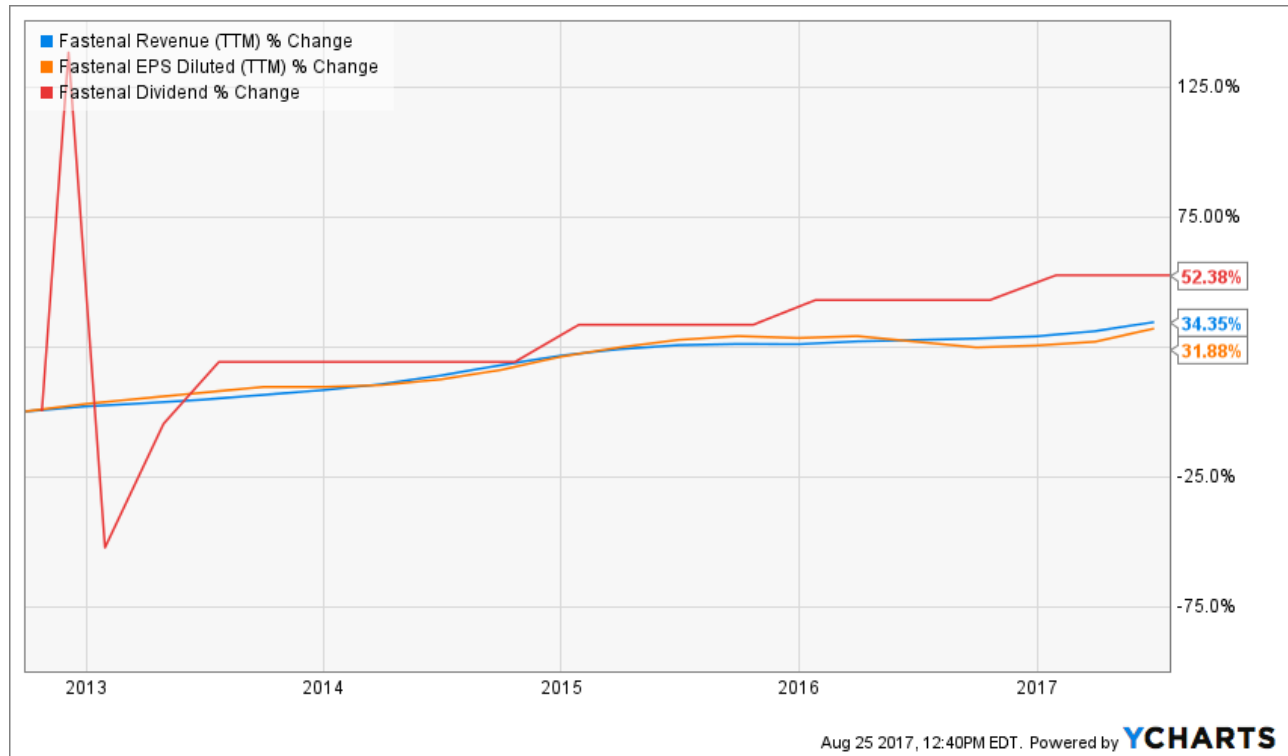
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Fastenal (FAST)



Business Model

Our last U.S. selection has been a mystery on the stock market for the past couple of years. While the company posted solid growth over the past 5 years, the stock price didn't go up at all during this period (-7.27%). Therefore, even if you included the dividend payment, you didn't even beat the inflation with Fastenal over the past 5 years. Maybe it's time the stock get some traction again?

Fastenal Co is an industrial supplies company. It distributes maintains, repairs, and operates supplies to industrial and construction customers. Its product portfolio includes OEM fasteners, safety products, tools and equipment. Recently, the company has expanded its revenues through a wider products portfolio, vending machines and on-site service.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

The company is showing revenue, earnings and dividend growth over the past 5 years but absolutely no stock price appreciation. This is being explained by the fact the market gave up to a 37 earnings multiple back in 2013 and it is now down to slightly under 23.

Over the past years, many clients decided to consolidate their needs (maintenance, repair and operations) with a smaller numbers of distributors like FAST. This is great news since Fastenal is one of the largest industrial distributors in the U.S. and cover the whole country with 2,500 stores.

Potential Risks

As clients consolidate their activities, they gain more negotiating power. This will eventually affect FAST margins. FAST is often a victim of the industrial sector cyclical nature. This may be one of the reasons why FAST stock didn't go up upon growing earnings and revenues. The biggest risks is that FAST continues to fly under the market's radar and you will end-up earnings the dividend and very little stock value appreciation.

Dividend Growth Perspective

We expect FAST to continue growing its dividend in the mid-single digit numbers (6-7%) in the upcoming years which is in line with their past 5 year dividend growth rate. Since 2014, FAST payout and cash payout ratios are slowly going down to more reasonable ratio (90% and 68%). We would like to see both ratios going down to 60% in order to ensure future dividend growth past the next decade.

Valuation upside +18%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$88.78	\$58.99	\$44.11
10% Premium	\$81.38	\$54.07	\$40.43
Intrinsic Value	\$73.98	\$49.16	\$36.75
10% Discount	\$66.58	\$44.24	\$33.08
20% Discount	\$59.18	\$39.33	\$29.40

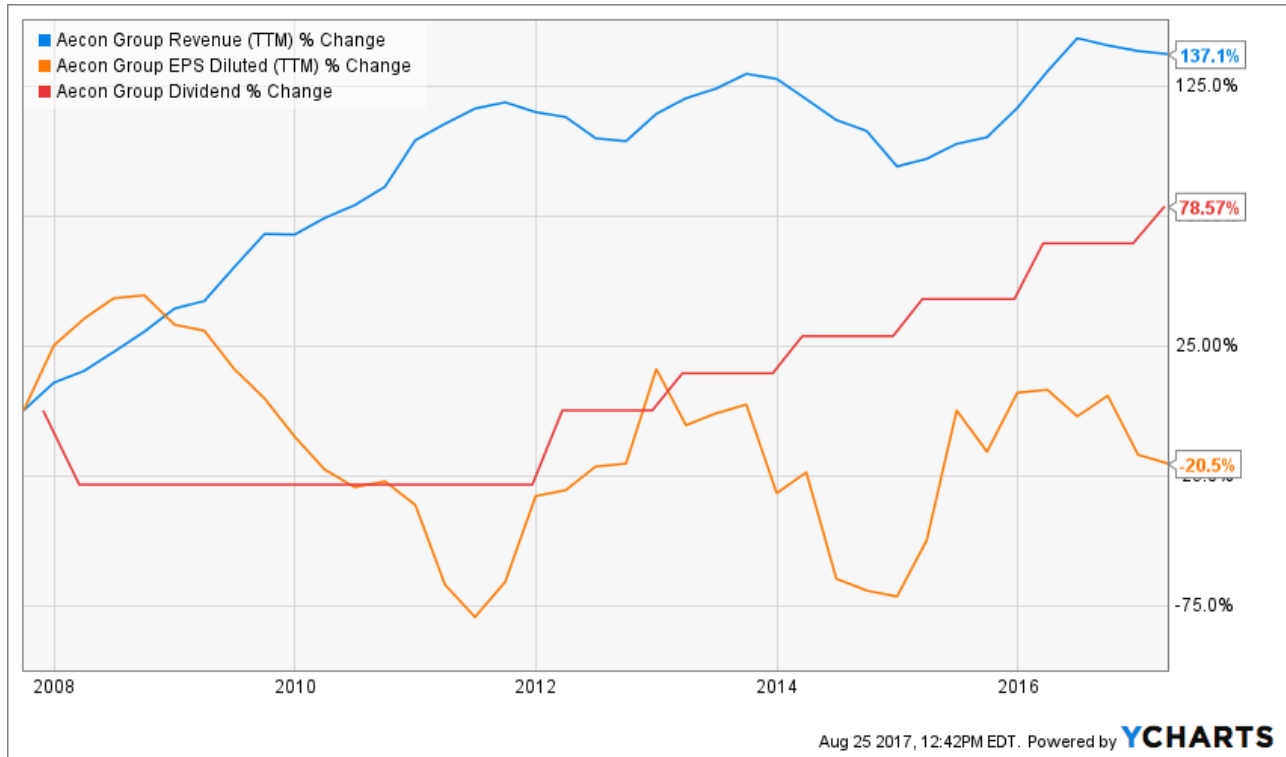
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Aecon (ARE.TO)



Business Model

Aecon provide construction and infrastructure development services to private and public sector customers throughout Canada (roughly 50%-50%). It also provides services to the energy sector as well as to mining sector.

As you can see in the graph above, while the past 5 years performance have been interesting, it is quite a bumpy ride in term of earnings over the past 10 years. The future looks bright for Aecon as the Liberal government has the firm intention to boost infrastructure spending with a \$35 billion fat wallet. On August 25th, the stock surged as ARE has hired an adviser to explore a potential sale of the company (source [Bloomberg](#)).

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

Macroeconomics is a strong tailwind that Aecon will benefit in the upcoming years. The need for new infrastructure in Canada is obvious. "Aecon is currently pursuing projects at the bidding or qualification stage and have total capital costs in excess of C\$25 billion," ARE founder John Beck said then. "We are very positive on the impact this level of investment and pipeline of projects will have on Aecon's growth and margin profile."

The tale of a potential sale will just add some excitement to this newly named Canadian Dividend Aristocrat.

Potential Risks

As shares jumped by over 20% in a single day upon the sale potential, the risk of seeing this gain fades is real. Infrastructure construction projects are capital intensive and there are often unexpected expenses. A project that goes sideways and the company's earnings drop in a heartbeat.

Dividend Growth Perspective

The company has recently joined the elite group of Canadian Dividend Aristocrats. The company should be able to maintain its 8%-9% dividend growth rate for a while as the project pipeline seems to increase steadily upon Gov't additional expenses in ARE sector.

Valuation upside -7%

Intrinsic Value	Discount Rate (Horizontal)		
	9.00%	10.00%	11.00%
Margin of Safety			
20% Premium	\$26.10	\$19.43	\$15.43
10% Premium	\$23.92	\$17.81	\$14.15
Intrinsic Value	\$21.75	\$16.19	\$12.86
10% Discount	\$19.57	\$14.57	\$11.58
20% Discount	\$17.40	\$12.95	\$10.29

*Please note the recent stock surge has potentially captured most of the potential value according to the DDM. However, a [National Bank analyst](#) thinks ARE could sell up to \$24.96 a share in the future.

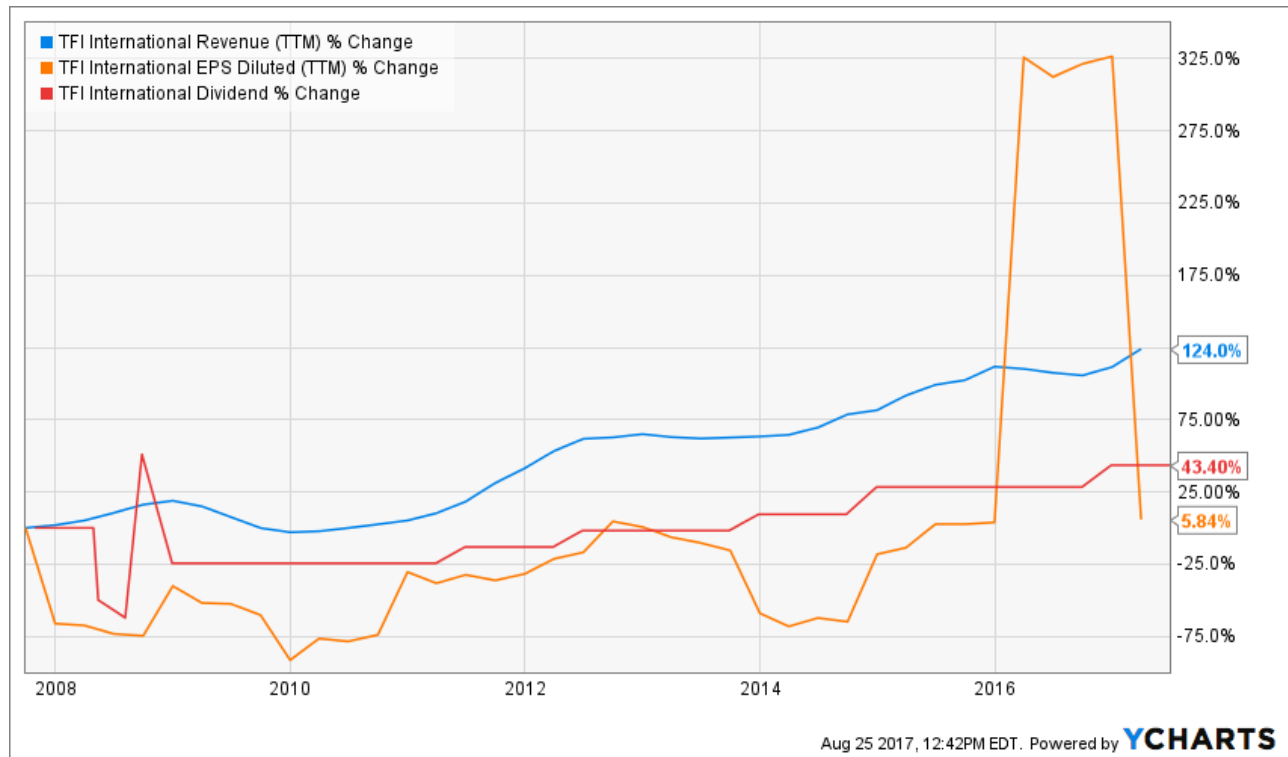
The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Transforce International (TFII.TO)



Business Model

TransForce is Canada's largest trucking company and the 9th largest for-hire trucking company in North America. In total, TransForce operates a fleet of 5,348 power units and 17,814 trailers. Headquartered in Montreal, TransForce has 278 terminals across Canada and 91 in the United States.

As opposed to the railroad industry, Transforce benefited from a surge in truck transportation over the past few years. Being the biggest player in Canada offers TFII more contracts than anybody else during a slowing down economy. TFII also continues growing with the purchase of 3,000 tractors and 7,500 trailers from XPO's U.S. TL division. Through this transaction, TFI expands its geographic presence as 30% of TL division was from crossing the borders toward Mexico. Unfortunately, this has been proven a difficult transition as TFII had to write off many millions in goodwill as TL activities are suffering from difficult pricing and higher costs than expected.

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

As Transforce is expanding, I believe it is the time to jump in their truck and ride it for a while. Expanding outside of Canada is their smartest move as both U.S. and Mexico economy seems to grow faster in the upcoming years. The economy is doing okay, but not great. With a larger fleet, TFII will be there to pick-up any steady growth in the future. Investing in a leader in Canada and overall North America is a safe bet for anyone building a dividend growth portfolio.

Potential Risks

While road transportation is currently beating railroads on many aspects, the contrary shift could also happen. We have seen the transportation industry as a highly cyclical one and stock value could suffer during down turns. TFII latest expansion in the U.S. is going sideways and currently hurts the overall company's performance (as the TL division counts for 25% of TFII total revenue). While the stock is still down 14% ytd, it's not on a uptrend over the past 3 months (+7%). Let's just say that TFII had hit a few more speed bumps than expected.

Dividend Growth Perspective

While TFI shows a 5 year dividend growth rate of 9.58% (CAGR), the payout ratio remains very... very low (10%). This gives lots of room for management to increase their dividend payout. However, we remained cautious in our calculation as the payout ratio was nearly at 100% not so long ago. We would wish for a smoother trend of earnings, but the dividend payouts are not at risk at the moment

Valuation upside +33%

Intrinsic Value	Discount Rate (Horizontal)		
	8.00%	9.00%	10.00%
Margin of Safety			
20% Premium	\$80.60	\$47.97	\$34.01
10% Premium	\$73.88	\$43.97	\$31.17
Intrinsic Value	\$67.17	\$39.98	\$28.34
10% Discount	\$60.45	\$35.98	\$25.50
20% Discount	\$53.73	\$31.98	\$22.67

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Overall Portfolios Performances

Each month, we will publish our different portfolio returns along with transactions that occurred during the month. Portfolios were created on October 1st, 2013. We usually post our performance at the end of our newsletter. But for our portfolio review, we rather start with the good news. Returns are as at August 31st 2017:

Portfolios	Return	Benchmark	Added Value	YTD
CAD Starter	54.03%	31.66%	22.37%	9.79%
USD Starter	48.10%	42.18%	5.92%	14.28%
USD 25K Conservative	46.54%	42.18%	4.36%	10.22%
CAD 25K Conservative	33.90%	31.66%	2.24%	8.30%
CAD 25K Growth	42.09%	31.66%	10.43%	8.93%
USD 25K Growth	58.11%	42.18%	15.93%	9.98%
USD 100K Conservative	57.74%	42.18%	15.57%	6.52%
USD 100K Growth	60.04%	42.18%	17.87%	9.97%
CAD 100K Conservative	34.64%	31.66%	2.98%	6.47%
CAD 100K Growth	49.62%	31.66%	17.97%	7.76%
USD 500K	23.72%	27.43%	-3.71%	10.15%
CAD 500K	27.98%	17.50%	10.48%	7.45%

**Canadian portfolios added value is calculated based on 50% of VIG and 50% of XDV as half of portfolios are US stocks. Currency hasn't been taken into consideration.*

The information contained within this report is for informational purposes only and it is not intended as a recommendation of the securities highlighted or any particular investment strategy; nor should it be considered a solicitation to buy or sell any security. In addition, this information is not represented or warranted to be accurate, correct, complete, or timely. The securities mentioned in this report may not be suitable for all types of investors and the information contained in this report does not constitute advice. Before acting on any information in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.