

DSR

2019



DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS



BEST 2019 DIVIDEND STOCKS

BASED ON DSR 7 DIVIDEND GROWTH INVESTING PRINCIPLES



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A LITTLE ABOUT ME



I must tell you I am most pleased you decided to take a peak at my book! I'm a passionate investor looking forward to connecting with other passionate investors.

My name is Mike Heroux and I'm the author of [The Dividend Guy Blog](#), The Dividend Monk, and Moose Markets (yes, I thrive on staying busy!) along with being the co-owner and portfolio manager at [Dividend Stocks Rock](#) (DSR). I have an unusual sense of humor for a "nerdy finance guy". Before you decide if you trust me or not, let's get to the "boring & serious" stuff first.

I earned my bachelor degree with a double major in finance and marketing, I completed a CFP (Certified Financial Planner) certification along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a financial planner and another 5 as a private banker managing accounts for high net worth (read \$1M+) clients.

Besides being a passionate investor, I'm also happily married with three amazing children, and I live in the beautiful province of Quebec, Canada. Since I'm French Canadian, and French is my native language, I have most of my writings in English edited to minimize any grammar or spelling errors. I started my online venture to capitalize on my education and professional background by educating people about investing. A most fortunate by product of this professional endeavor is that I can work from home which allows me to be able to spend more time with my family.

In 2016, I decided to leave everything behind and go for a 1-year RV trip across North America and Central America (we made it all the way down to Costa Rica). Upon my return in 2017, I quit my job as a private banker and invested all my energy in my online business. I would rather pursue my dream of helping people invest through my sites. Since then, I have been a full-time online entrepreneur.

[You can read more about my investing journey here.](#)

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SAFE PICKS FOR 2019

With the market going sideways for the past few months, both US and Canadian markets are on their way to close 2018 in negative territories. There are lots of fluctuations as many investors realize they don't have the stomach to ride such markets.

Each year, I make the publication of a book titled "Best Dividend Stocks". This requires several weeks of hard work reading and researching financial statements. The purpose of this book is not to make you sell your portfolio and make you switch to this one.

The purpose of this book is to create a portfolio-like list of stocks in various sectors to provide both stock value appreciation and dividend growth perspectives. Additional research and analysis are required before making any trades. I'm neither your broker nor your financial advisor.

I've started this "tradition" in 2012 and pick American Stocks (20) and Canadian Stocks (10) that, combined together, I believed will beat the market. Each company has been analysed and handpicked per the DSR investing model.

So far, I've succeeded to beat my benchmark 5 times out of 6 for each market. We are only a few days away until I can confirm that my 2018 selections beat both markets. This would put my total at 12 out of 14. **What you are about to read is an excerpt of this book.** I've included 3 US and 3 Canadian "safe" picks for 2019. DSR members received the full 30 picks.

I did my homework and am fairly confident my 2019 picks will be solid again.

Once again, this book is not a book of recommendations, but it's a great step forward on your 2019 dividend investing journey!

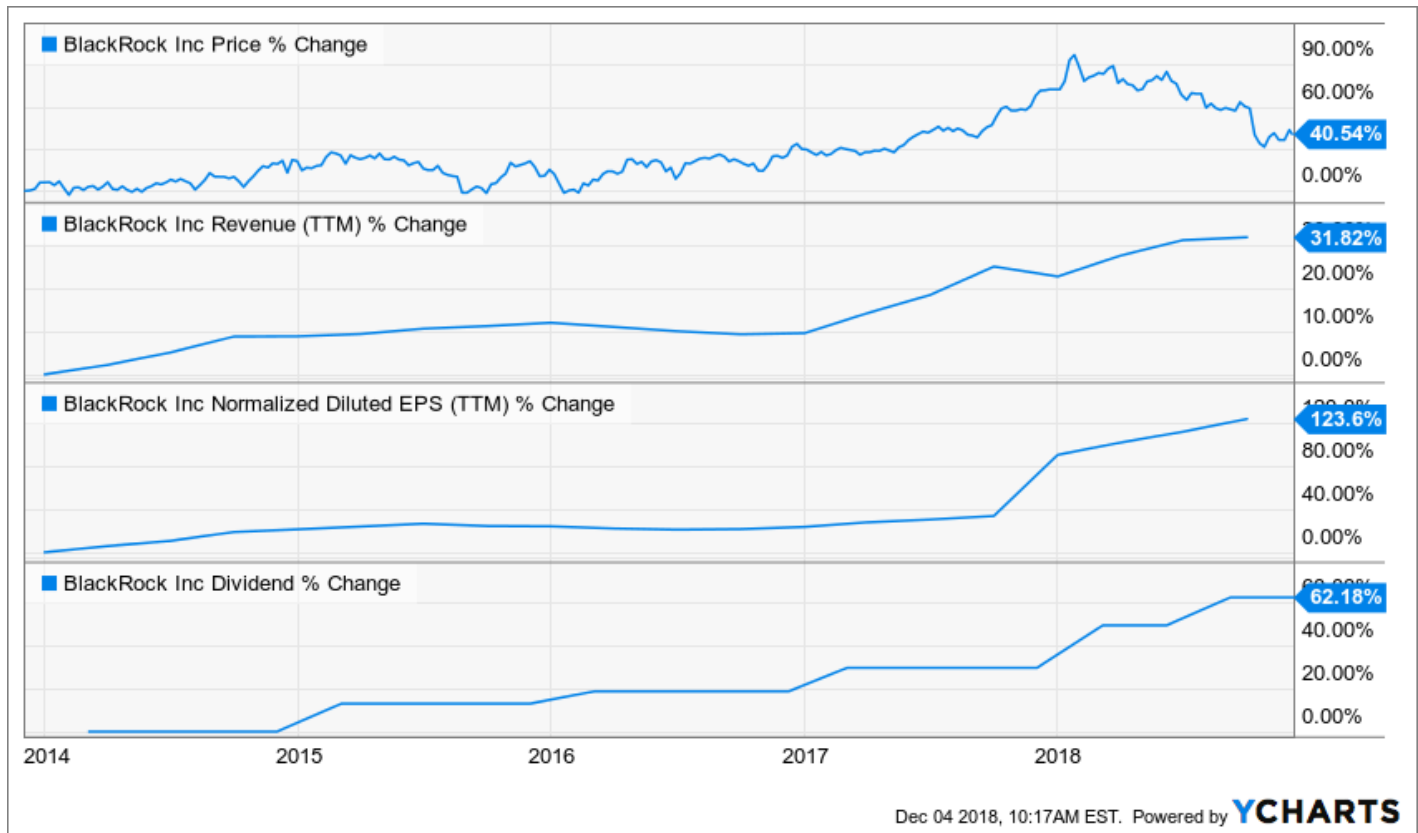
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BLACKROCK (BLK)



Business Model & Recent Comments

BlackRock is not only the world's largest asset manager by assets under management (AUM), but it is also a dominant leader in one of the fastest growing investment products: ETFs. As low-cost fees and passive investing solutions tend to grow stronger, more money is being transferred toward BLK. BlackRock offers investment products in all asset classes enabling it to generate fees regardless of whether investors are bullish or bearish.

BLK didn't impress the market with its recent modest revenue growth. Shares were once close to \$600/share earlier this year, but now have crossed below the \$400 level for the first time since the spring of 2017. Weak AUM is still on the table. Q3 net outflows \$3.11B vs net inflows of \$20B in Q2 and inflows of \$96.1B a year ago. You can see investors are nervous about the market as equity had outflows of \$17.3B, fixed income had inflows of \$22.9B, multi-asset had inflows of \$3.23B, and alternatives had inflows of \$1.74B. This is definitely a time to add some BLK to your portfolio.

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Investment Thesis

BlackRock is a winner and a keeper for decades to come. BLK net inflows of assets under management continue to increase quarter after quarter. In other words; there is always new money coming in. The company is a leader in a growing investment field (ETFs), and has a strong relationship with several institutional clients. Institutional investors are more inclined to stay with their providers for several years than switching from one company to another in the short term.

Potential Risks

The main problem is BLK has been on an incredible run on the stock market. No matter how much you love it, BLK will be among the biggest losers if a market correction occurs. It could also be a victim of its own success. The market is going into cheaper and more efficient investing products. BLK's actively managed products could suffer much while its less-profitable products (ETFs) will grab market share.

Dividend Growth Perspective

The company has shown an impressive dividend growth rate for the past 7 years. Over the past 5 years, BLK maintained a 10%+ annualized dividend growth rate. Even better, the current payout and cash payout ratios are well under control. We expect a high single-digit dividend growth rate going forward even if the payout ratio permits low teens growth rates.

VALUATION

Dividend Growth Rate Years 1-10: 9.00%

Terminal Dividend Growth Rate: 7.00%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$954.02	\$632.02	\$471.20
10% Premium	\$874.52	\$579.35	\$431.94
Intrinsic Value	\$795.02	\$526.68	\$392.67
10% Discount	\$715.52	\$474.01	\$353.40
20% Discount	\$636.02	\$421.34	\$314.14

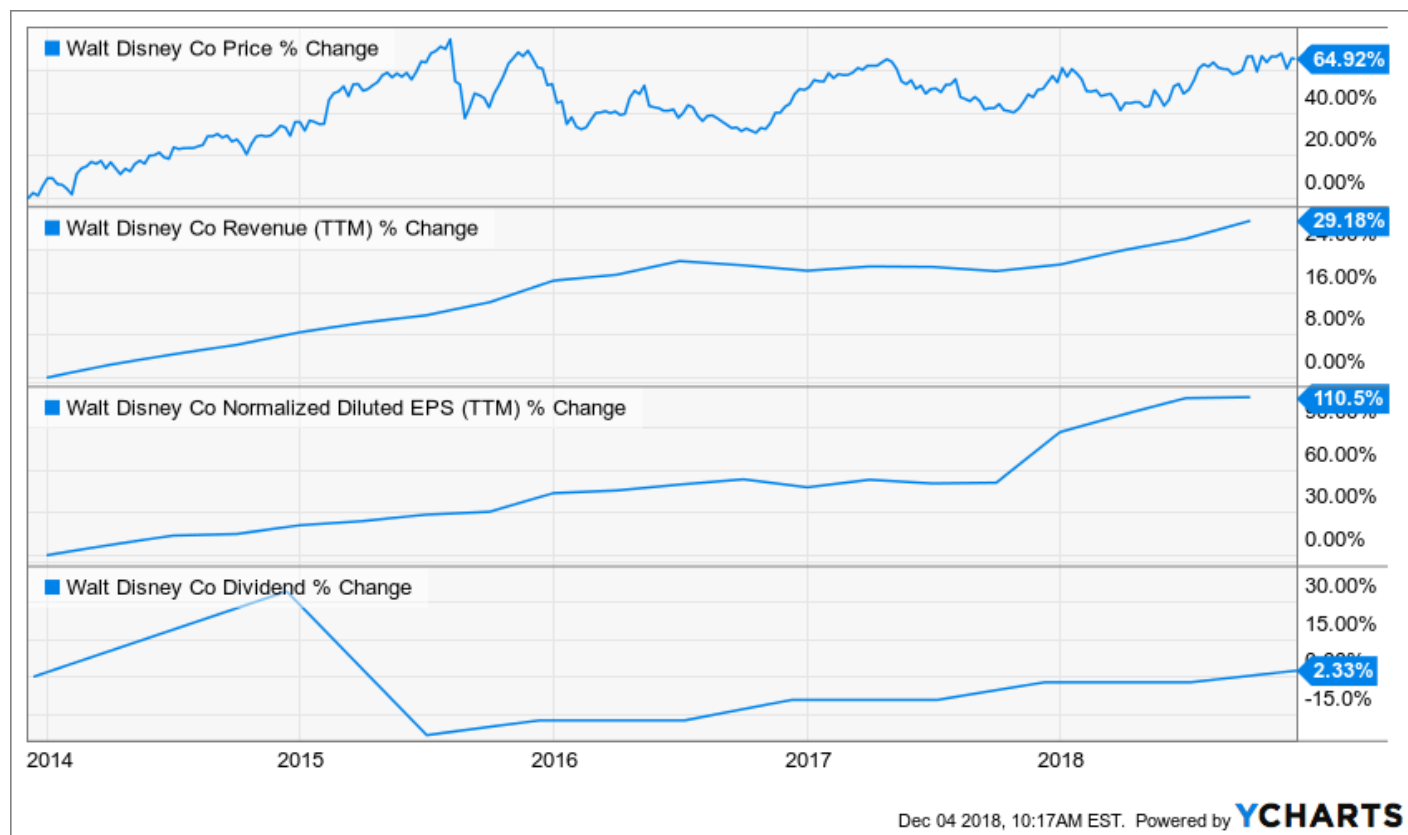
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DISNEY (DIS)



Business Model & Recent Comments

Disney is the king of content. In 2006, It bought Marvel for \$4 billion. Six years later, Disney sealed another \$4 billion deal with the Lucasfilm purchase. Today, we can divide Disney into two separate businesses. Media networks include ESPN, ABC and many FOX assets while Disney branded businesses include parks, movies and consumer products. Both segments show strong vectors.

Disney has been doing better on the market lately as investors are finally getting a grasp of Disney's business plan: acquire more content (Fox), diversify (streaming) and multiply their streams of income. The investment thesis will get out of the never-ending "ESPN is losing subscribers" and we will talk about future growth again. Please note the dividend hasn't been cut in 2015 as suggest the graph. It's because DIS went from an annual dividend payment to a semi-annual distribution mode. Management recently announced another raise by 5%. We expected more, but management probably needs more cash flow to integrate Fox assets and launch its streaming services.

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Investment Thesis

Through the acquisition of Pixar, Marvel and Lucas Film, Disney has built a never-ending universe of blockbuster movies. The company pursued the same strategy while buying FOX assets. There is already an Avatar section in their theme park. In 2019, DIS expects to launch two different streaming services; a sport channel and an entertainment application. We don't see Disney competing against Netflix, but rather completing NFLX product offerings. Most families and sports enthusiasts will likely pay an extra \$10 a month to access more content and keep both DIS and NFLX services. In the meantime, DIS will count on numerous super heroes and Star Wars movies to boost its income.

Potential Risks

While the DIS media network (driven by ESPN) is a strong cash cow, the steady decline of cable subscribers is worrying the market. For this reason, each piece of news confirming the issue brings the stock price down. While streaming services are only expected in 2019, any rumors around it will affect the stock price. As the FOX deal is done, now it's up to management to fully integrate those assets. As interest rates rise, a recession could hurt family budgets for vacation, and they may skip Disney's theme parks.

Dividend Growth Perspective

Don't get fooled by the dividend line in the graph as dividend payment policy went from once to twice a year. Over the past 5 years, DIS almost doubled its distribution as dividends went from \$0.86 annually to \$0.84 every 6 months. With a current payout ratio around 20%, DIS should keep its distribution growth in the high single to double digits for many years to come. The streaming service starting in 2019 will be another cash cow to support the ever-increasing dividend.

VALUATION

Dividend Growth Rate Years 1-10: 10.00%

Terminal Dividend Growth Rate: 8.50%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$479.42	\$159.53	\$95.56
10% Premium	\$439.47	\$146.23	\$87.60
Intrinsic Value	\$399.52	\$132.94	\$79.63
10% Discount	\$359.57	\$119.65	\$71.67
20% Discount	\$319.62	\$106.35	\$63.71

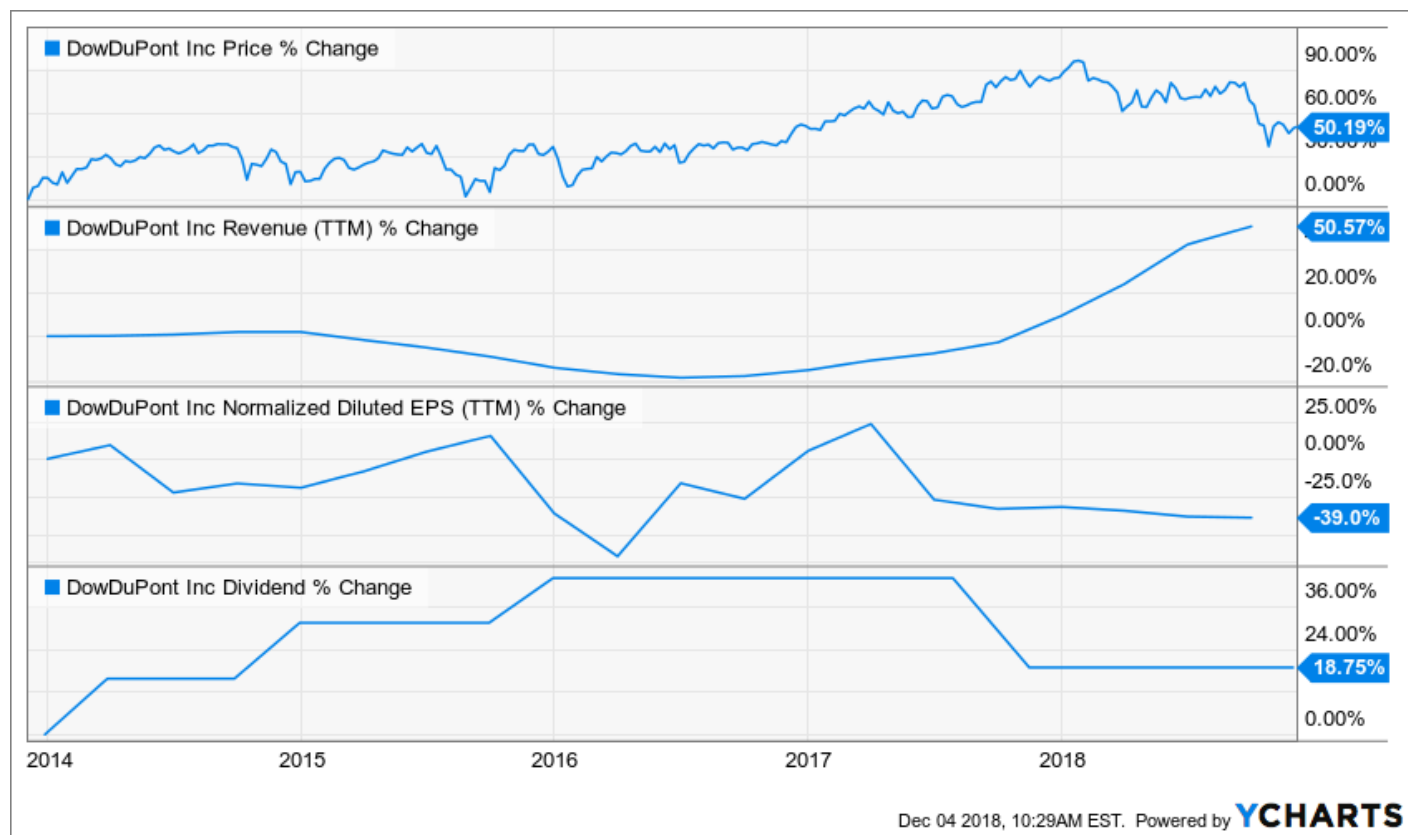
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DOW DUPONT (DWDUP)



Business Model & Recent Comments

DowDuPont is the result of the merger of Dow and DuPont into a behemoth with over \$80 billion in sales. The company has three global divisions: Agriculture, Materials Science and Specialty Products. The company, which combines the complementary portfolios, resources and capabilities of Dow and DuPont, intends to separate into three independent publicly traded companies by June 2019.

This is where Corteva Agriscience will offer germplasm, biotech traits and crop protection products. Through the merger, Corteva will gain strength through synergies and their distribution network. Dow will concentrate on material science with robust technology, asset integration and scale. Dow's success will come from low costs of operation. On top of synergies coming from the merger, Dow enjoys low natural gas costs to feed its operations. DuPont will focus on speciality products with their solid R&D capabilities. With a sizeable portfolio of patents, I think DuPont is well positioned to service many industries, notably military and defense through its Kevlar products.

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Investment Thesis

I think more value will be unlocked upon the split in 2019. This is why I think it's the right timing to get some shares in your portfolio. Once the split is done, all numbers will be clear for all investors. The chances are that all three of the stocks will be fairly priced.

There is always a risk to buy shares of a company that is about to make an important move. However, considering the next transactions will create three leaders in three different markets, I think it will be hard to be wrong in accumulating shares now.

Potential Risks

There have been many concerns about trade wars and tariffs. Obviously, the soybean market has been affected as China put this sector into the war zone. If such macro economics continue to heat-up, chances are we will land in a recession. Companies like DWDP don't really do well during down cycles. Considering investors are quite nervous these days, some of them may try to cash their profits and run before it happens.

Uncertainties about potential synergies have been brought up by some analysts. We all agree there will cost savings, but the key numbers are yet to be known. Uncertainties are never good in the market. This is why the stock is down 20% at the moment. I think it's a good entry point.

Dividend Growth Perspective

At this stage, it is nearly impossible to determine what kind of dividend will be paid after the split that is planned for June 2019. But shareholders can rest assured that there will be dividends paid considering the history of both companies.

VALUATION

Dividend Growth Rate Years 1-10: 5.00%

Terminal Dividend Growth Rate: 6.00%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$88.61	\$59.28	\$44.60
10% Premium	\$81.23	\$54.34	\$40.89
Intrinsic Value	\$73.84	\$49.40	\$37.17
10% Discount	\$66.46	\$44.46	\$33.45
20% Discount	\$59.07	\$39.52	\$29.74

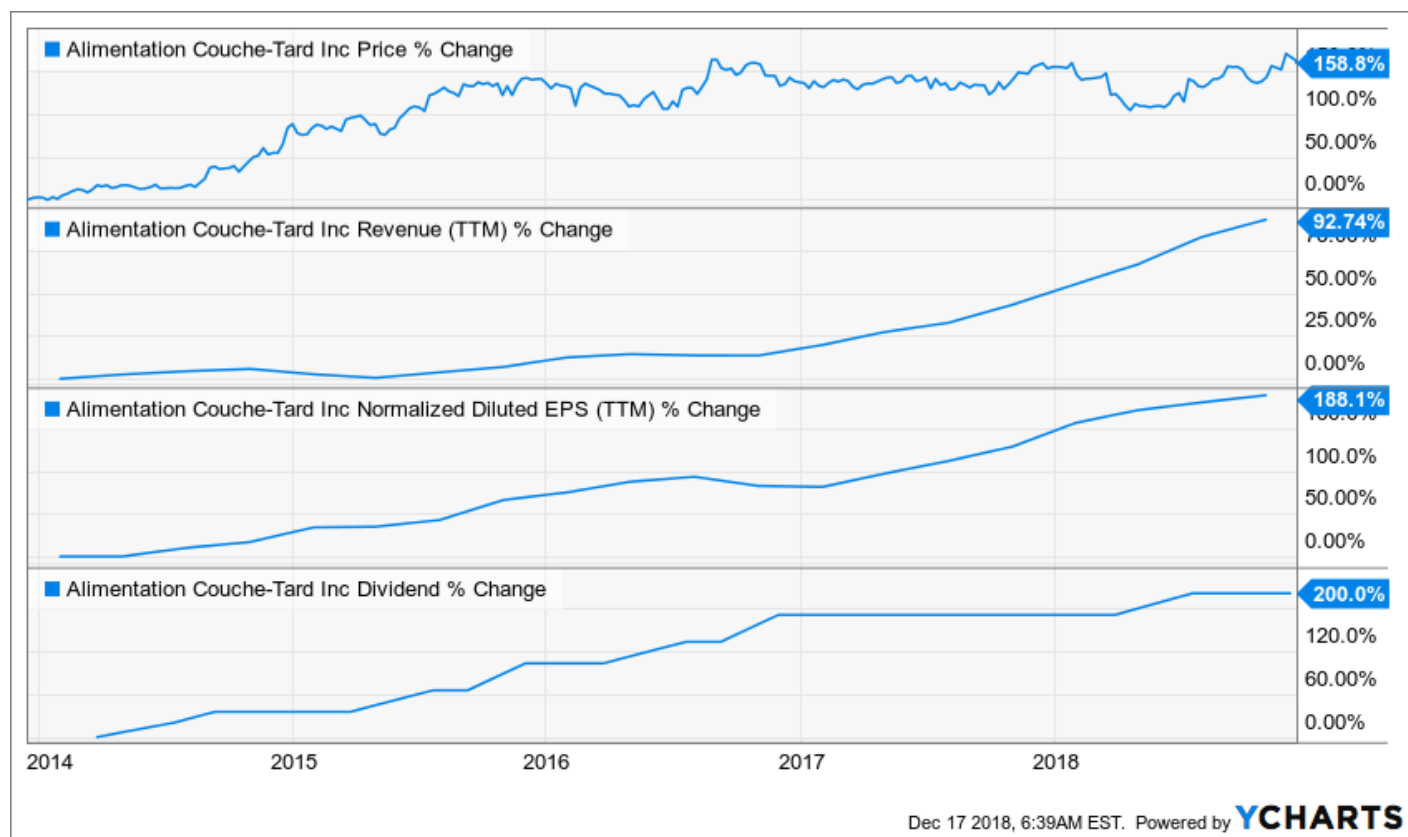
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ALIMENTATION COUCHE-TARD (ATD.B.TO)



Business Model & Recent Comments

Alimentation Couche-Tard is the largest convenience store operator in Canada and the 2nd largest in North America. While constantly expanding its presence in the US and Europe, it successfully built a convenience store chain including many daily use products. Many stores are also combined with fuel service stations. ATD operates 12,081 stores (7,863 in North America, 2,708 in Europe and 1,510 internationally). Instead of simply selling chips and beers, ATD focuses on a superior offering which includes fresh food, private labels and strong product concept offerings.

ATD's strong results were supported by the integration of CST brands. Annual synergies run rate for the CST acquisition reached approximately \$189.0M. The company also posted strong organic growth across all segments: +4.2% in the U.S., by 7.3% in Europe and by 6.6% in Canada. Strong management helped improving margins in the U.S. (+0.2%) and in Europe (0.3%). Management can balance its appetite for growth and its debt repayment as the adjusted leverage ratio continued to improve and reached 2.86:1.

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Investment Thesis

An investment in ATD is definitely not for an income producing stock. However, if you are looking at the long-term horizon, your dividend payouts will grow in the double digits for a while and you will enjoy strong stock price growth as well. ATD potential is directly linked to its capacity to swallow and integrate more convenience stores. ATD shows a perfect combination of the dividend triangle: revenue, EPS and strong dividend growth.

Potential Risks

Growers by acquisition are all vulnerable to making a bad purchase. While ATD methodology to acquire and integrate more convenience stores has been proven, it is important to not grow too fast or become too greedy and overpay in the name of growth. Still, it doesn't seem like an issue with the current management team. As interest rates rise the costs of future acquisitions will increase accordingly.

Dividend Growth Perspective

The mediocre dividend yield is so low ATD shouldn't even be considered as a dividend grower. However, the dividend paid nearly tripled since 2011 (from \$0.03 to \$0.10/share) and the stock price surged 500%. The only reason why the dividend yield is so low is because ATD is on a fast track for growth. ATD will continue increasing steadily its payout while providing stock value appreciation to shareholders.

VALUATION

Dividend Growth Rate Years 1-10: 12.00%

Terminal Dividend Growth Rate: 8.50%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	-\$143.95	\$142.24	\$46.88
10% Premium	-\$131.95	\$130.39	\$42.98
Intrinsic Value	-\$119.96	\$118.54	\$39.07
10% Discount	-\$107.96	\$106.68	\$35.16
20% Discount	-\$95.97	\$94.83	\$31.25

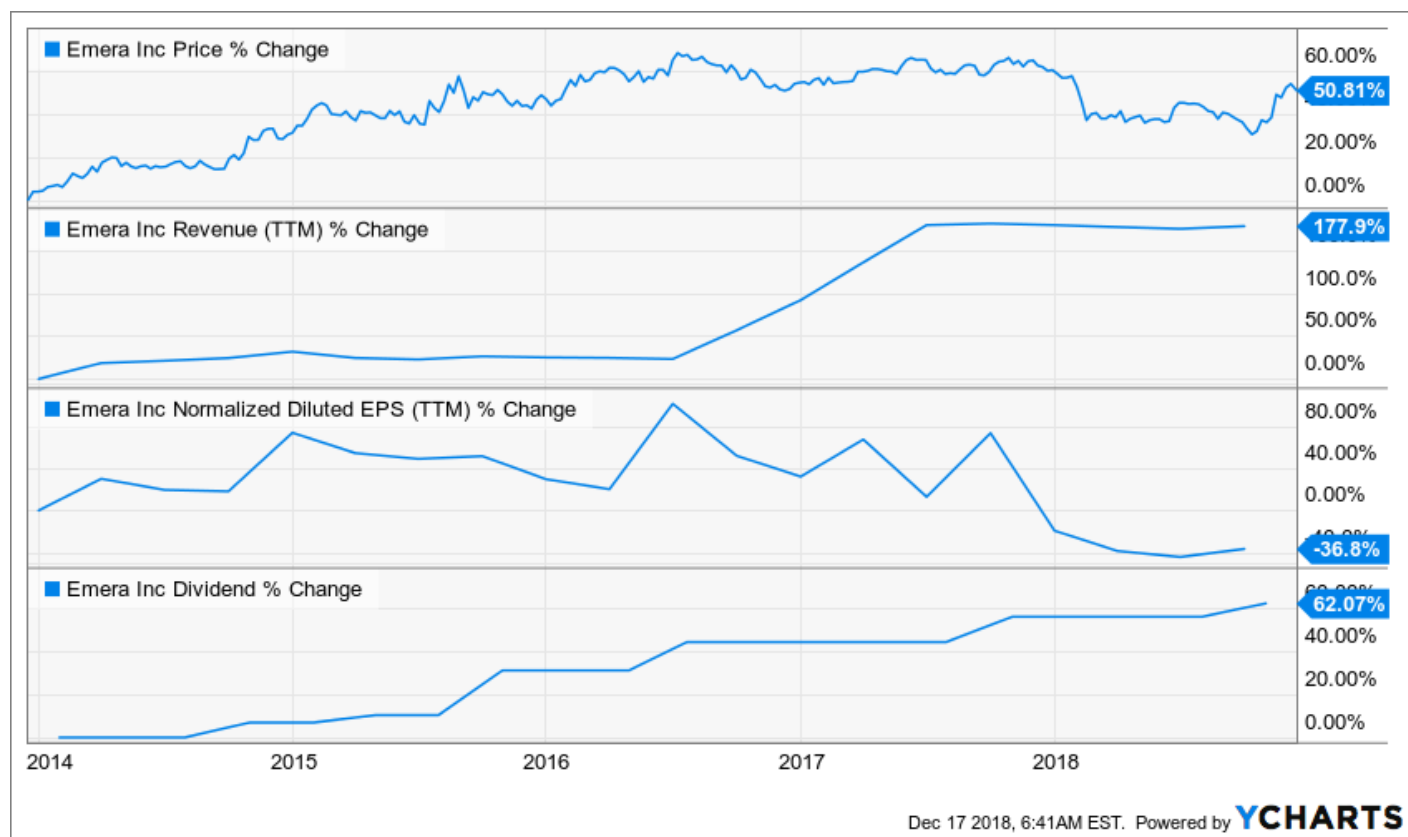
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EMERA (EMA.TO)



Business Model & Recent Comments

Emera is an energy and service company. Emera's main market is Nova Scotia as it owns Nova Scotia Power, the province's main electricity provider. Emera owns power plants and distributes natural gas in Canada, the USA and the Caribbean. This utility employs over 7,000 workers and serves more than 2.5 million customers. Tampa Electric (41%), NSPI (14%) and Maritime Link (11%) generates most of EMA's earnings.

EMA reassured investors with a strong quarter showing operating cash flow up by 27% ytd. Emera also highlighted that over the 2019-2021 period, its primary sources of funding for its current capital investment profile is expected to consist of internally generated cash flows, debt raised at the operating company level in support of the growth profile of each business and select asset sales. EMA enjoyed higher rates in Florida to support its revenue growth.

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Investment Thesis

Emera is a very interesting utility with a solid core business established on both sides of the border. EMA now shows \$30 billion in assets and will generate revenues of about \$6.3 billion. It is well established in Nova Scotia, Florida and four Caribbean countries. This utility counts on several “green projects” with hydroelectricity and solar plants. Through 2020, EMA intends to invest over \$6B in new projects. This decreases the risk of future regulations affecting its business as the world is slowly moving toward greener energy.

Potential Risks

The biggest risk that could face Emera is a rapid rise in interest rates. As it has pursued a growth-by-acquisitions strategy, and it has used more loans to finance the Maritime Link, higher interest rates would slow down Emera’s appetite for growth projects in the future. Management recently reduced their dividend growth target from 8% to 4-5% through 2021. This may be a sign that larger interest costs may have an impact on their cash flow.

Dividend Growth Perspective

Emera has been increasing its dividend payment each year for over a decade now. With the purchase of TECO energy, management intends to continue its tradition. The company has forecast an 4-5% dividend growth rate through 2021 while targeting a payout ratio of 70-75% (Emera Investors Presentation). At 5%+ dividend yield, this is a keeper for several years. Don’t get fooled by the high payout ratio, adjusted earnings show a payout ratio around 80% including the recent dividend growth.

VALUATION

Dividend Growth Rate Years 1-10: 4.00%

Terminal Dividend Growth Rate: 5.00%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$90.72	\$68.27	\$54.78
10% Premium	\$83.16	\$62.58	\$50.22
Intrinsic Value	\$75.60	\$56.89	\$45.65
10% Discount	\$68.04	\$51.20	\$41.09
20% Discount	\$60.48	\$45.51	\$36.52

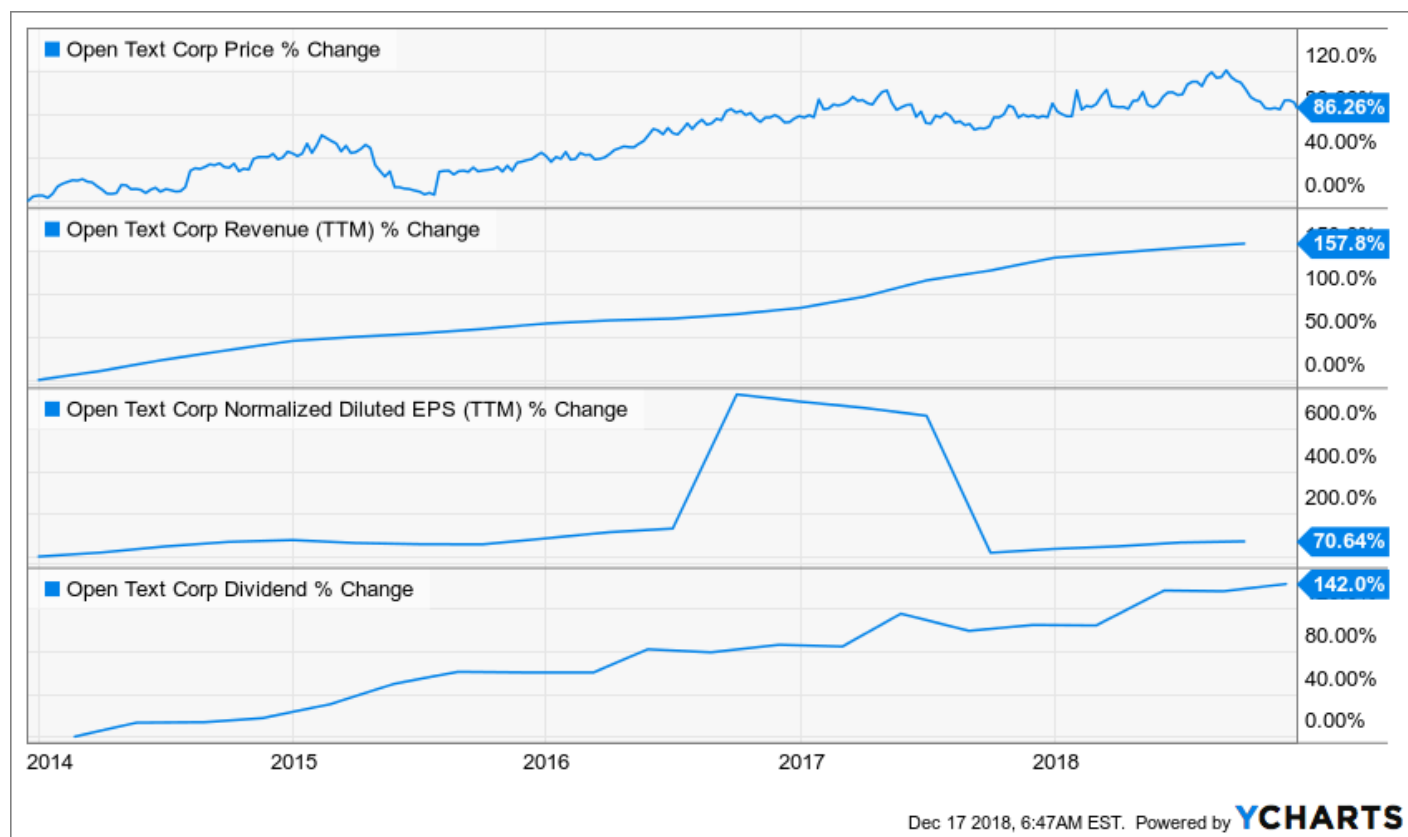
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OPEN TEXT (OTEX.TO / OTEX)



Business Model & Recent Comments

Imagine a big business that employs 100 people and keeps growing. Each day, tons of information is collected about products, sales, employees, expenses, contracts, etc. This information is piling up in mountains of unreadable reports. It needs a solution to receive, integrate and digest this data. This is called an Enterprise Information Management (EIM) system. EIM helps managers make better decisions by organizing the information to access it rapidly, understand it and trust it. OTEX is a leader in the industry and Canada's largest provider of these services. It helps over 100,000 customers to share, store, retrieve and analyze their company's information.

For a company working in the cloud, OTEX missed a great opportunity to grow this quarter (revenue up only by 4%). The company disappointed the market and shares continue to drop. We think it could lead to a great buy opportunity. Key metrics: OpenText Cloud revenue, \$208M (+7%); Customer Support revenue, \$312M (+6%); Annual Recurring Revenue, \$520M (+6% Y/Y); Adjusted EBITDA, \$246M (+250 bps); operating cash flow, \$171M (+155%); cash: \$788M. Acquisition: Open Text will pay \$310M in cash for Liaison Technologies, a provider of cloud-based B2B integration.

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DIVIDEND STOCKS ROCK

PORTFOLIO CREATION USING DIVIDEND GROWTH STOCKS

Investment Thesis

Big data, cloud, and security. Three keywords you are not done hearing about. As we evolve through an era of consolidation; businesses grow larger every second. Managing growth is one thing but dealing with the enormous amounts of data this growth is bringing inside each company is part of Hercules' labors. Enterprise Information Management (EIM) systems have been developed to manage this issue, and OpenText happens to be one of the leaders in this emerging business. What we like the most about the OTEX business model is its ability to create recurring revenues. As the company grows through acquisitions, recurring revenues coming from EIM subscriptions increase naturally.

Potential Risks

Open Text evolves in a changing environment and is continuously one iteration away from being obsolete. Several competitors also lurk to grab OTEX clients. Many are larger U.S. companies with more resources. OTEX built a strong name and there is a switching cost for clients, but it is not impossible that OTEX stops being the flavor of the month. Plus, OTEX is condemned to grow by acquisitions. With several transactions under its belt, it doesn't seem like a problem. However, this could lead to hectic quarters.

Dividend Growth Perspective

OTEX shows a low yield but its growth policy is quite aggressive. OTEX will be surfing on strong tailwinds for several years. As the company continues its quest for growth, expect a double-digit dividend growth policy for several years to come.

VALUATION

Dividend Growth Rate Years 1-10: 7.00%

Terminal Dividend Growth Rate: 12.00%

Intrinsic Value	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$74.54	\$48.97	\$36.22
10% Premium	\$68.32	\$44.89	\$33.20
Intrinsic Value	\$62.11	\$40.81	\$30.18
10% Discount	\$55.90	\$36.73	\$27.17
20% Discount	\$49.69	\$32.65	\$24.15

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