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INVESTING

Dividends the mark of 'cash in the till'

RICHARD BLACKWELL

In the same year that Bank of Montreal began the longest dividend-paying streak in Canadian history, Upper Canada College was founded in Toronto, the Welland Canal was completed to bypass Niagara Falls, and Notre Dame Basilica opened in Montreal.

It was also the year that Shanawdithit, the last member of the Beothuk First Nation, died in St. John's, and that Albert Rogers, who would eventually discover the Rogers pass in British Columbia's Selkirk Mountains, was born in Massachusetts.

It was 1829, and the bank hasn't missed a dividend since.

But BMO isn't the only Canadian company that has paid dividends non-stop for well over a century. Seven other firms, including all the other big banks except National Bank of Canada, are in that rarefied league. National would be on the list -- its predecessor company began payouts in 1890 -- but it temporarily suspended dividends in 1982.

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Bank of Nova Scotia is firmly in second place, with an unbroken dividend record that began in 1833. One of Toronto-Dominion Bank's constituent firms began its payouts in 1857, putting it third.

According to numbers compiled by the Toronto Stock Exchange, 60 Canadian stocks have paid dividends consecutively for a quarter-century or more. That's down from the early 1980s, when more than 100 firms had an unbroken dividend record of 25 years or more.

In the past year, several companies with long payout records dropped off the list, mainly because they've been acquired by other firms. Falconbridge Ltd. was snapped up by Anglo-Swiss conglomerate Xstrata PLC, ending its 76-year dividend spree. Hudson's Bay Co., bought by U.S. investor Jerry Zucker, had a 68-year run up to that point.

CHUM Ltd., which had paid dividends on two classes of stock for more than 30 years, is in the midst of being absorbed by BCE Inc., and Sears Canada Inc. ended its 45-year dividend streak amid a bitter takeover battle that is still unresolved.

Investment professionals say a long-term record of dividend payouts is one important measure of the quality of an investment -- but certainly not the only one.

"The ability to pay dividends and grow dividends is symptomatic of a good business, a strong competitive position, and a long product cycle," said Dale Harrison, manager of Phillips Hager & North's Dividend Income Fund. "To us in the dividend fund world, those are extremely important characteristics to start with."

Still, Mr. Harrison said, other factors are more directly related to shareholder returns, such as strong free cash flow, good management, and a good overall financial position. Stocks with consistent dividends will likely get more attention in the coming months, he said, as a result of the recent income trust controversy. The rush into trusts, and the subsequent uproar when Ottawa said it would change the tax rules, has underlined that "a lot of investors out there want yield," Mr. Harrison said.

Companies are also well aware that a strong dividend yield may get them investor attention, possibly boosting their price/earnings ratios, and thus lowering their cost of capital, he said.

The boost in the federal dividend tax credit, announced in the May budget and followed by similar moves from some of the provinces, will also likely make dividend-paying stocks more attractive.

Bill Procter, manager of several dividend funds at Mackenzie Financial Corp., said firms with a long track record of dividend payouts tend to be in businesses that lend themselves to that consistency -- ones with continuous modest growth and consistent free cash flow. When a company has established a long-term record, however, it can be very difficult for them to cut or kill that dividend when business turns down, he said. "Unless you get a major recession or something fundamentally changes in their business, you'll likely see that pattern continue."

In the current healthy economic environment, with inflation low and corporate profits strong, some companies have boosted their payout ratio -- the proportion of profits returned to investors as dividends, Mr. Procter said. Some banks, for example, have payout ratios in the 40- to 50-per-cent range, a jump from 35 to 40 per cent a few years ago.

One money manager who has been watching dividends longer than most in the industry is George Frazer, an investment manager at Toronto-based Leon Frazer & Associates Inc. Now 80, Mr. Frazer still manages the dividend-heavy IA Canadian Conservative Equity Fund begun by his father in the 1950s.

Consistent dividends are a sure and clear sign that a company is healthy, Mr. Frazer said. "They wouldn't pay dividends if they didn't have the cash in the till."

He describes corporate dividends as a "bird in the hand" and is a strong believer in reinvesting those dividends in company stock. By plowing back quarterly payouts, an investor benefits from compounding four times a year, he said.

With income trust managers beating a path to Ottawa to complain about the new rules for taxing income trust payouts, Mr. Frazer has his own recollection of lobbying the federal government on a similar issue: the taxing of dividends.

When the Liberal government introduced the first tax on dividend payments in the early 1950s, under pressure from the CCF party, Mr. Frazer flew to Ottawa to complain to then-finance minister Douglas Abbott.

"One snowy February morning I took a Viscount to Ottawa and sat in his office for about four hours before I saw him," Mr. Frazer said. After reaching the inner sanctum, "I started to rant and rave [about the new tax]. He said he agreed but he couldn't do anything with the CCF breathing down his neck."

Ottawa eventually softened the tax with the dividend tax credit, a provision now being enhanced to ensure no double taxation of dividends from large corporate entities.

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Canadian stocks that have paid dividends for 25 years or more

100 years or more

	Since	Yield*
Bank of Montreal	1829	3.8
Bank of Nova Scotia	1833	3.2
Toronto-Dominion Bank	1857	2.8
Canadian Imperial Bank of Commerce	1868	2.9
Royal Bank of Canada	1870	2.9
Laurentian Bank	1871	3.8
BCE Inc.	1881	4.7
Imperial Oil Ltd.	1891	0.8

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50 years or more

Telus Corp.	1916	2.8
Economic Investment Trust	1927	0.6
Third Canadian General Inv. Trust	1929	0.6
George Weston Ltd.	1930	1.9
Canadian General Investments	1931	0.9
Maple Leaf Foods	1935	1.3
Corby Distilleries A	1938	2.2
Corby Distilleries B	1939	2.4
Alcan	1939	1.6

United Corporations	1939	1.2
Dover Industries	1940	2.6
Molson Coors A	1940	1.7
Canadian Tire common	1944	0.6
Fortis	1949	2.6
Molson Coors B	1950	1.7
Reitmans common	1951	2.9
Enbridge	1952	2.9
TransAlta	1956	3.8

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25 years or more

Canadian Utilities B	1957	2.4
EnCana	1960	0.9
Canadian Tire A	1960	0.9
Reitmans A	1960	2.9
Nova Chemicals	1962	1.2
Shell Canada	1962	1
Central Fund A	1962	0.1
TransCanada	1964	3.2
Brookfield Asset Management	1965	1.3
E-L Financial	1969	0.1
Torstar B	1970	3.8
Power Corp.	1972	2.2
Harris Steel Group	1972	0.9
McGraw Hill Ryerson	1973	1.9
CAE	1973	0.4
Toromont Industries	1973	1.6
Andrew Peller A	1974	2.1
Logistec A	1974	1.4
Rothmans	1974	5.5
Atco I	1974	1.6
Atco II	1974	1.6
Shawcor A	1975	0.7
Canada Bread	1976	0.4
MDS	1976	0.6
Pacific Northern Gas	1977	4.4
Teck Cominco A	1977	2.2
Teck Cominco B	1977	2.3
AGF Management B	1978	2.6
Leon's Furniture	1978	2

Andrew Peller B	1979 1.8
Astral Media A	1979 1
Loblaw Companies	1979 1.7
CCL Industries A	1980 1.3
Thomson Corp.	1981 2.1

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