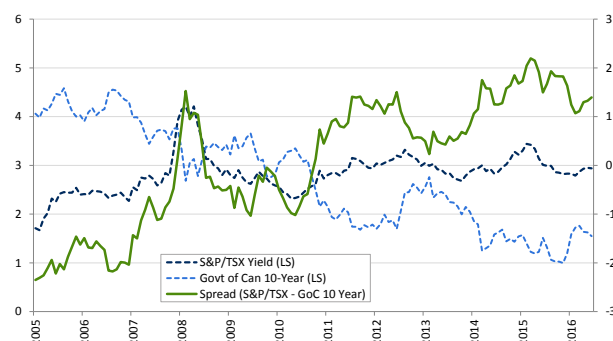


Better Than Bonds

We revisit a previous Trends & Ideas subject, “Better than Bonds” from July 2016. With Canadian government bond yields remaining near record lows, we believe investors will continue to look to high-quality dividend paying stocks to meet a portion of their income needs. The 10-year Government of Canada (GoC) bond is yielding 1.57%, while the S&P/TSX dividend yield is currently 2.92%, or 135 bps above the GoC bond. In the adjacent chart, we show that since 2011, what was once unprecedented is now the norm. Stocks yield more than bonds. We believe bond yields may remain low, making dividend-paying equities an attractive alternative to generate income in a portfolio.

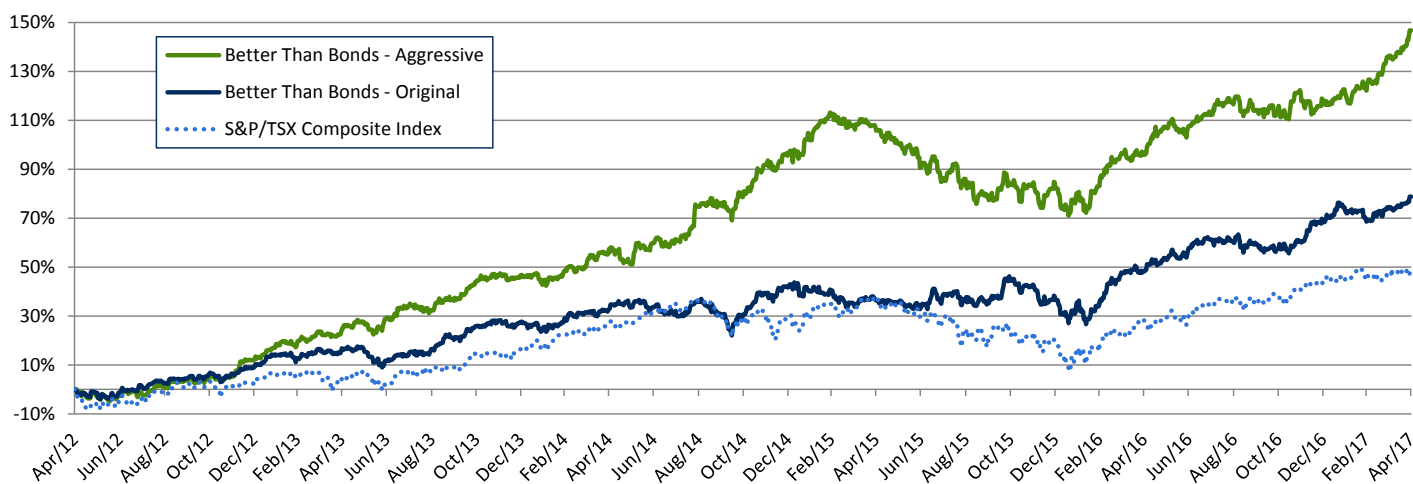
With this in mind, we revisit the “Better than Bonds” screen ran in the past. Here, we searched for stocks with dividend yields higher than the ten-year average 10-year GoC yield of 2.54%, a beta relative to the S&P/TSX Composite Index of 0.85 or less, and a market capitalization of \$500 mln or higher. We then narrowed down the list by assessing each company’s balance sheet strength and operating efficiency by looking for an interest coverage ratio of greater than 1.5x, a dividend coverage ratio greater than 1.0x and the ability to generate revenue from their fixed assets (i.e properties, plants or any equipment), namely a net fixed asset turnover greater than 1.0x. We then backtested the strategy (original) and show the performance relative to the S&P/TSX Composite Index below. If implemented exactly five years ago and rebalanced quarterly, the strategy would have returned a mean annualized return of ~13.0%, or 385 bps greater than the S&P/TSX. We also decided to add an additional screen that is more aggressive, using the five-year average 5-year GoC yield of 1.2% in order to better match the past five year environment and to lower our hurdle rate (lower yield allows for growthier companies), a dividend coverage ratio greater than 1.5x and a net fixed asset turnover greater than 1.5x. The aggressive strategy would have returned a mean annualized return of 20.5%, or 1080 bps greater than the S&P/TSX.

S&P/TSX’s Dividend Yield > GoC 10-Year Yield



Source: Bloomberg, Raymond James Ltd.

“Better Than Bonds” Screen Outperforms the S&P/TSX Composite Index



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 3.

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If we were to run both the Original and Aggressive screens today, we would find the names below. We note that Western Forest Products Inc. (WEF-T) shows up in both screens.

Original "Better Than Bonds" Screen – Sorted by Dividend Yield

Ticker	Name	Dividend Yield	Market Cap (blns)	3-Month Beta	Net Fixed Asset Turnover	Interest Coverage	Dividend Coverage
T-T	Telus Corp	4.3%	\$27.1	0.66	1.3x	5.1x	1.5x
SJR'B-T	Shaw Comm	4.1%	\$14.2	0.61	1.2x	3.6x	1.0x
WEF-T	Western Forest	3.6%	\$0.9	0.83	4.2x	33.1x	2.0x
TRI-T	Thomson Reuters	3.1%	\$43.6	0.54	11.4x	4.6x	1.2x
RCI'B-T	Rogers Communi	3.1%	\$32.4	0.58	1.3x	3.1x	1.2x
WJA-T	Westjet Airlines	2.5%	\$2.6	0.73	1.1x	3.7x	2.9x

Source: Bloomberg, Raymond James Ltd. Priced as at 15/05/2017.

Aggressive "Better Than Bonds" Screen – Sorted by Dividend Yield

Ticker	Name	Dividend Yield	Market Cap (blns)	3-Month Beta	Net Fixed Asset Turnover	Interest Coverage	Dividend Coverage
WEF-T	Western Forest	3.6%	\$0.9	0.83	4.2x	33.1x	2.0x
PBH-T	Premium Brands	2.0%	\$2.5	0.60	7.8x	8.8x	1.8x
NFI-T	New Flyer Indust	1.8%	\$3.3	0.83	16.7x	12.2x	2.6x
TIH-T	Toromont Inds	1.6%	\$3.6	0.63	4.2x	20.7x	1.8x
CTC'A-T	Canadian Tire	1.6%	\$11.3	0.81	3.2x	6.5x	1.9x
WN-T	Weston (George)	1.5%	\$15.7	0.63	4.3x	4.2x	1.9x
MRU-T	Metro Inc	1.4%	\$10.5	0.54	8.1x	11.2x	3.5x
L-T	Loblaw Cos Ltd	1.4%	\$30.8	0.62	4.5x	3.2x	2.2x
SAP-T	Saputo Inc	1.3%	\$17.2	0.76	5.1x	32.1x	3.3x
GIL-T	Gildan Activewea	1.3%	\$8.6	0.46	2.5x	16.4x	3.9x
MFI-T	Maple Leaf Foods	1.3%	\$4.4	0.58	3.1x	24.4x	2.1x
DHXB-T	DHX Media Ltd	1.2%	\$0.8	0.20	11.9x	3.3x	3.0x

Source: Bloomberg, Raymond James Ltd. Priced as at 15/05/2017.

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