PORTFOLIO STRATEGY

A 17-pack of dividend-growth stocks for investors who want to flip the script on inflation

ROB CARRICKPERSONAL FINANCE COLUMNIST

PUBLISHED JUNE 18, 2022

Fight inflation by investing in it.

If you're paying more for gasoline or diesel fuel, invest in energy stocks. Price hikes in retail stores mounting up? Put some money in companies that sell the things you buy.

Let's refine this idea a bit: Focus on dividend-paying stocks because their quarterly cash payouts will help you offset rising living costs. And within the dividend-paying universe, emphasize companies where we can anticipate a higher cash payout in the next 12 months. Financial solidity is important, so put a premium on companies with manageable debt loads and strong profitability.

All of these factors were built into a screen of stocks listed on the S&P/TSX Composite Index by Morningstar CPMS. The result is a list of 17 dividend-paying companies in sectors that include energy, utilities, consumer goods, telecom and others where inflation is an issue for consumers.

Ian Tam, director of investment research at Morningstar Canada, included these rules in the screen:

- Dividend yields for each stock must be above the median level for its sector peers
- Return on equity, a measure of profitability and ability to pay dividends, must be above the sector median
- The ratios of cash-flow-to-debt and debt-to-equity must compare favourably with sector median levels
- Payout ratios, a measure of how sustainable dividends are, must be reasonable for the sector
- Expected cash dividend payments for the next 12 months should be higher than the previous 12 months.

Consumer dividend stocks to fight inflation

Dividend stocks in the S&P/TSX Composite Index were screened by Morningstar CPMS to find the ones that best offered investors an opportunity to offset inflation in their everyday lives. Here are the 17 companies that made it through a screen based on factors like dividend yield and growth, profitability and debt levels.

COMPANY	TICKER	SHARE PRICE ($)	YTD PRICE CHANGE (%)	DIVIDEND YIELD (%)
Consumer cyclicals				
Restaurant Brands Int.	QSR-T	62.02	-19.1	4.6
Sleep Country Canada Holdings Inc.	ZZZ-T	25.04	-33.3	3.5
Gildan Activewear Inc.	GIL-T	36.5	-31.9	2.4
Richelieu Hardware	RCH-T	37.14	-14.9	1.4
Financial services				
National Bank of Canada	NA-T	89.10	-7.6	4.1
Manulife Financial Corp.	MFC-T	21.91	-9.10	6
Great-West Lifeco Inc.	GWO-T	31.85	-16.1	6.2
Bank of Nova Scotia	BNS-T	80.66	-9.9	5.1
Consumer defensive				
The North West Co. Inc.	NWC-T	34.64	1.2	4.2
Utilities				
Capital Power Corp.	CPX-T	45.39	15	4.8
Communications services				
Quebecor Inc.	QBR-B-T	27.48	-3.8	4.4
Energy				
Parex Resources Inc.	PXT-T	26.84	24.2	2.3
Freehold Royalties Ltd.	FRU-T	15.31	31.4	6.2

COMPANY	TICKER	SHARE PRICE ($)	YTD PRICE CHANGE (%)	DIVIDEND YIELD (%)
Cdn Natural Resources Ltd.	CNQ-T	78.48	46.8	3.8
Whitecap Resources Inc.	WCP-T	11.35	51.5	3.1
Technology				
Enghouse Systems Ltd.	ENGH-T	24.76	-48.9	3
Open Text Corp.	OTEX-T	48.28	-19.6	2.3

Four energy stocks made the list of 17 – you can ignore them if you're a socially responsible investor who shuns the sector, but there's not a better example of how to offset inflation in your investment portfolio.

"Oil stocks show up very well, particularly for dividend growth," Mr. Tam said.

The list of 17 also includes a selection of companies selling or producing retail products and services: Sleep Country Canada Holdings Inc. (ZZZ), Gildan Activewear Inc. (GIL), Richelieu Hardware Ltd. (RCH) and Restaurant Brands International Inc. (QSR). Conspicuously absent from the list are the country's big supermarket chains, including Loblaw Cos. Ltd., Metro Inc. and Empire Co., owner of Sobeys.

Mr. Tam said these stalwarts of the consumer staples sector typically had dividend yields that were too low to satisfy the screening criteria. In a sense, that's a testament to their strength in recent years. Dividend yields and share prices move in opposite directions. The one consumer staples company on the list is North West Co. Inc., which operates stores in the Canadian North and elsewhere.

The four financial services stocks on the list offer some of the strongest numbers for both dividend yield and estimated dividend growth this year. Bank of Nova Scotia had a dividend yield of 5.1 per cent at week's end, while the dividend was projected to grow by 8.4 per cent compared with the previous 12 months. By comparison, the latest inflation rate is 6.8 per cent.

Inflation is a toxic force in finance right now – it's driving up your cost of living and a major cause of the turbulence we've seen lately in the stock and bond markets. If you're interested in the stocks on this list, be mindful of how inflationary trends may play out in the future for markets and the economy.

The interest-rate hikes being used to control inflation could slow the economy and corporate profit growth, even to the extent of triggering a recession. Consumer spending has so far held up with inflation flaring, but that could end.

The bottom line here is that the stocks on this list could easily fall in price, even as they produce dividends that help you cope with rising living costs. Consider these shares a near-term hedge against inflation and a long-term way to generate strong total returns based on dividends plus share price gains.

The one thing that seems certain right now in finance: Inflation isn’t done with us yet.