DSR PREMIUM NEWSLETTER

IN THIS ISSUE…

- Stocks to buy forever.
    - Communication services
    - Consumer discretionary
    - Consumer staples
    - Energy
    - Financials
    - Healthcare
    - Industrials
    - Information Technology
    - Materials
    - REITs
    - Utilities

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AUGUST 4TH, 2023

Dear DSR member,

It is with great pleasure that we present our weekly premium newsletter which is an important component of your subscription to Dividend Stocks Rock.

You may benefit from viewing our video explaining the differences between the Buy List, our ratings, and our portfolio models. You can retrieve this information in the Videos section of the website.

Referral

Feel free to share our ideas with your friends or associates who may benefit from this information. **We would personally consider any referrals you make on our behalf to be the ultimate compliment for our efforts.**

STOCKS TO BUY FOREVER EDITION

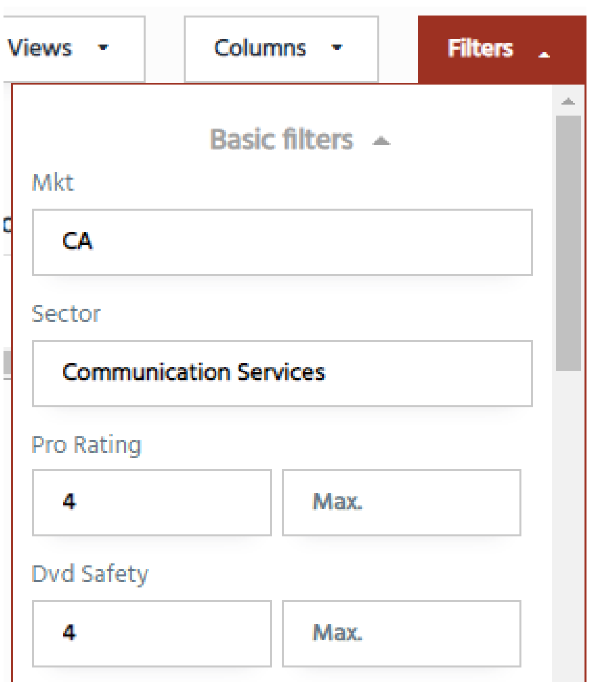
Last year, I wrote a “stocks to buy forever” newsletter as a temporary replacement to Mike’s buy list. I did that for two reasons:

1. There are limited activities and news during the summer. Therefore, repeating the same commentary about Mike’s buy list can be redundant.
2. It’s a great opportunity to reflect on stocks to buy with a long-term horizon (over 10 years) and apply Warren Buffett’s “buy forever” mentality.

In this update, I’ll disclose my choices from last year and discuss if I’ve changed my mind or not. The tricky part is that while you always wish to hold shares “forever”, companies and economic environments change all the time. Therefore, it’s never that simple and you must always monitor your holdings.

Buy forever?

Before we get to the stock selections, I want to make it clear why I’m writing this newsletter. These selections aren’t about timing or about portfolio management. I’m not suggesting to you that these companies are an amazing buy right now. What I am telling you is that I would buy any of these companies and close my brokerage account for 10 years without looking at them for even a second. I’d be comfortable knowing they would work for me even if I can’t monitor them because I have full confidence that these companies will succeed.



During more difficult times, we need this dose of reassurance. We need to be more than 100% sure that the companies we have in our portfolio will hold up their part of the bargain. The companies I’ve selected are the ones I would put on my “all-star” team. These companies I know will sail through the next recession and face any inflation headwinds with courage and even a smile on their faces. They are warriors, they are winners, and they are candidates for the foundation of any portfolio.

These companies are easy to find at DSR since you can filter by each sector and require a minimum rating of 4 (PRO ratings and dividend safety score). You won’t find many candidates with this simple search.

In the following pages, you will see a lot of “usual suspects” and there shouldn’t be any surprises. However, I’ll tell you the one reason why each company is on that list. There are several factors that will make you press the buy button, but there are only a handful of characteristics that makes a company unique vs. its peers.

You can get the full analysis for each of these great companies on the DSR website, but my goal here is to share with you the #1 reason why I think they are the best. If this reason is valid, they will be great candidates for my portfolio.

I want to offer you my favorite stocks for each sector to give you more choices to pick for your portfolio. I obviously like more than one stock per sector, therefore, I had to do much additional consideration before writing this newsletter. For example, I struggled with the selection of either Apple or Microsoft for my favorite tech stock 😌.

COMMUNICATION SERVICES

Cdn selection: Telus (T.TO / TU) Keeper

While all other members of this oligopoly go after media, Telus goes after technology improvements. We are talking about using artificial intelligence for several industries such as healthcare and agriculture. As the population ages in North America, healthcare technology support will be in high demand. The same is true for farmers who must optimize their land use while facing the effects of climate change along with many other headwinds. Telus is a strong play in the wireless industry and uses their extra cash flow to diversify their model through various industries. People can cut cables, but they can't cut their healthcare and food production. While there are some concerns regarding Telus' debt level, the company has recently shown its ability to increase cash flow from operations. I expect this situation to be a short-term problem that comes with a long-term solution. The massive investment in Telus' wireless infrastructure along with its various growth projects will generate additional cash flow down the line.

U.S. selection: Disney (DIS) Keeper

There are no interesting dividend payers that catch my eye in the U.S. in this sector. You'll have "deluxe bonds" such as Verizon that will bring you a good yield, but not much capital appreciation. Keep in mind Verizon was trading around $50 per share 10 years ago. All you have with Verizon is the dividend.

On the other side, Disney will get loved and will get hated again and again in the next 10 years. It's a polarizing company and not everybody likes Disney. However, Bob Iger laid the foundation for an incredible business model, and he is now back to clean-up the mess created by the previous CEO. There are no other companies creating content like Disney. They manage the largest portfolio of franchises (Marvel, Star Wars, Pixar) and they have the unique ability to generate multiple streams of income from each item. Ten years from now, we'll have more movies, more theme parks, and your children, grandchildren and great grandchildren will continue to consume Disney's content. I must admit this one is tasking my patience as its stock price hasn't done anything in the past 6 years.

CONSUMER DISCRETIONARY

Cdn selection: Magna International (MG.TO / MGA) Keeper

I must admit I hesitated a second over Canadian Tire, but the future of retail isn't that assured. What's obvious is the need for transportation. Regardless of whether our cars run on fuel, electricity or will levitate, Magna International will be manufacturing auto parts for car makers. MG has reached a size and scale that enables them to have a seat at the table to partner-up, design and produce auto parts for the world's largest car markers. This ability to have "joint businesses" with car manufacturers makes them an essential part of the auto industry.

Like Telus, Magna doesn't look like a winner right now as its operating margins have been squeezed since the beginning of the supply chain disruptions in 2021. We don't have obvious choices in this sector amongst Canadian stocks. I still believe Magna International will be a winner over the long run due to its deep connection with major car makers.

U.S. selection: Genuine Parts (GPC) Keeper

I could have gone the easy route and picked Starbucks (SBUX) since it's in my portfolio. I love Starbucks for many reasons such as their iconic brand and their ability to convince everybody to open their wallet for a high-priced coffee. However, Genuine Parts has proven its longevity beyond any other companies in this sector.

GPC has increased its dividend each year since 1957! What's the secret behind 66 consecutive pay raises? Repeatable and necessary purchases. GPC offers a wide variety of replacement automotive and industrial parts. While Magna sells new parts, GPC helps its customers to repair what they already own. With the economies of scale GPC realizes, they have become an uncontested leader in their market. They are slowly but surely adding growth via small acquisitions to ensure they remain on the top of the hill. GPC is not only a dividend King but is also the king of replacement parts!

CONSUMER STAPLES

Cdn selection: Alimentation Couche-Tard (ATD.TO) Keeper

Grocers (Metro, Loblaw, and Empire) could have been good choices also, but I'm concerned about their growth potential considering the amount of competition and pressure on margins they will face in the coming years. They recently reported great numbers, but margin expansion is likely to be temporary. Canada's lack of population density across its territory makes it difficult to increase revenue by opening new grocery stores and maintaining margins. Transportation costs will eat a good part of any revenue increases.

Alimentation Couche-Tard has a unique business model. It's ability to adapt is uncanny. 10 years ago, ATD was a growth by-acquisition machine and counted on fuel sales across the world to boost its income. They count on an experienced management team that never writes checks for low value propositions. They prefer to leave a bad deal on the table and keep their money in their pocket. 10 years ago, they acquired Statoil Fuel & Retail for $2.8B. What's special about Statoil? It was Norway's top oil producer and retailer. It was also the door to understanding how the electric car will impact ATD's business several years later. Here's what the future looks like:

"In Norway, at our stations, we now have nearly 500 charging points and have gained much insight into the charging and shopping behaviors of our EV customers. With a higher frequency of charging on-the-go than initially anticipated, we have the firm conviction that our convenience and fuel network have a strong use case in an electrifying world." (p.16 of ATD's 2021 Annual report)

Today, Alimentation Couche-Tard shows a great mix of organic growth (adding fresh products, a loyalty program, and automatic tellers) and acquisitions (it recently acquired 2,200 stores from Total Energies in Europe). What's not to love?

U.S. selection: Procter & Gamble (PG) Keeper

If there is a sector where there were several contenders for this list, it is the consumer staples sector. All the legendary brands are here: Colgate-Palmolive, Costco, Coca-Cola, PepsiCo, and Hershey, which is my favorite chocolate company!

I've selected Procter & Gamble because this company made major mistakes in the past and management learned from those failures. PG manages one of the largest (if not the largest) portfolios of billionaire brands (21). Buying PG shares is like buying a complete ETF of consumer stables. Their focus on brand management (keeping the most profitable and promising brands vs. selling laggards) has been the determining point in adding PG to this elite list.

Procter & Gamble is everywhere and sells everything. They can go through any type of recession or crisis as their economies of scale will help their margins and their iconic brands will remain in the minds of billions of consumers.

We had another great example of their brand portfolio strengths as they increased their prices over the past 18 months to fight inflation. PG has shown once again that it has strong pricing power and can maintain healthy margins (above 20%).

ENERGY

Cdn selection: Canadian Natural Resources (CNQ.TO / CQN) Keeper

A few years ago, I may have been tempted to select Enbridge or TC energy. Pipelines are amazing because they are getting paid no matter what happens in the energy markets. Their long-term contracts (25 years on average for ENB, 14 years for TRP) provide incredible stability in their revenues. Recently, I can see there are clouds (environmentalists, regulators, inflation, labor shortages, and high interest rates) forming around pipelines. On the other side, there is a company that has truly impressed me during the latest oil crash of 2020, and it is Canadian National Resources.

While many tend to compare Suncor to CNQ, one cut its dividend and the other increased it when the sky was completely dark. CNQ proved that what they claimed for so many years was true: they are sitting on the most diversified, strong, and long-lived energy portfolio in the market. This unique mix of assets enables them to manage production according to changes in commodity prices. It's like having "unlimited" food in your pantry where you can sell food at the most expensive price and keep it for yourself when prices are down to limit costs. While it all looks great on paper, it's during oil crashes that we see the truth. CNQ held up their end of the bargain during the toughest times in the industry, and it deserves our respect (and maybe a place in your portfolio). With more than 20 years of consecutive dividend growth, CNQ has proven it can keep its promise in any kind of situations.

FINANCIALS

Cdn selection: National Bank (NA.TO) Keeper!

I told you it won't be a list filled with surprises! I worked at National Bank long enough to know about its DNA. From a small regional bank (like Laurentian Bank several years ago), National Bank has become a real player in the financial industry. Their diversified activities opened the door to multiple growth vectors. They were among the first banks to identify wealth management and capital markets as growth vectors for the future (that was 10 years ago!). Due to its comparatively small size, they are more agile and can act quicker than the big 5. This provides them with a unique advantage in several markets.

I would add a special mention to Royal Bank, TD Bank and BMO in the banking world as they are also strong contenders for this "buy forever spot". I could also add Brookfield Corporation (BN.TO) to that list of amazing financial companies in Canada.

Nonetheless, my first pick will remain National Bank for its diversification and focus on growing the business. NA is by no means finished growing!

U.S. selection: BlackRock (BLK) Keeper

I didn't have to search for a long time for this one. BlackRock is not only the world's largest asset manager having money invested in literally everything, but also the largest ETF provider. This trend is nowhere close to slowing down as more investors understand that paying high fees to have their money managed is a waste. Their business model is incredibly sticky as a large part of their revenue comes from institutional investors. BlackRock has become a "must have" for many investing strategies. Their platform Aladdin provides a unique way to manage risk for customers. There has been and is a lot of growth to grab in the wealth management market!

Please keep in mind one must be patient with asset managers in an uncertain market. The business model is all about charging fees on assets under management (AUM). When the market goes down, BLK and other asset managers will generate less money. On top of that, we see many income-seeking investors going back to fixed income and GICs. Let's just say the margin is a bit less on those products vs. emerging market funds!

HEALTHCARE

U.S. selection: Johnson & Johnson (JNJ) Keeper

I must add a special mention to Abbot Laboratories (ABT) which could be a debatable choice for this newsletter. However, I've selected JNJ for my list because the "proof is in the pudding". JNJ was among the first dividend growers I added to my portfolio more than 10 years ago. Most of the time, I forget I have JNJ in my portfolio! This is the type of "sleep well at night" stock that you know you can count on. Today, JNJ shows a total return above 250% (including dividends) and will continue to be part of my "triple digit club" for another decade at least!

JNJ has become one of the largest companies in the healthcare sector providing strong economies of scale. Since it specializes in specialty drugs that are hard to replicate, it extends the longevity of each product. More income leads to more R&D investments. You guessed it, it's a virtuous circle where more money in R&D will lead to a stronger pipeline and eventually more sales. Therefore, I love JNJ as a core portfolio holding!

INDUSTRIALS

Cdn selection: Canadian National Railway (CNR.TO) Keeper

There are a few good candidates in the industrial sector, but nothing is more boring and steadier than a railroad company. I opted for CNR vs. CP due to its long dividend growth history. CNR is the largest Canadian railroad operator, and nobody can replicate its asset base. This barrier to entry is impenetrable and the need for transportation of goods will not slow down in the future. Canada is known for its natural resources and CNR is known to be able to move them. It's a match made in heaven. Like JNJ, CNR is another company that I often forget I own.

U.S. selection: A O Smith (AOS) Keeper

I hesitated for a second to talk about Waste Management (WM) as it would have been another great contender for this list. Another option would have been a second railroad (Union Pacific (UNP)) that I hold in my RESP account.

I've selected a rare stock from this list that I don't own: A O Smith (AOS). A O Smith provides essential products like water treatment solutions. AOS benefits from being the leader in North America and is expanding to the rest of the world. Demand for water treatment will continue to be robust in the future as water gets rarer. China, India, and other water treatment segments represent 36% of sales and represent the company's fastest-growing opportunities. For investors who want to make a play on water needs, AOS has a proven business model and it's a dividend aristocrat.

INFORMATION TECHNOLOGY

Cdn selection: Constellation Software (CSU.TO) Keeper

The logical choice here would have been Open Text (OTEX.TO) as it is the largest dividend grower from a tiny list. It's not a bad choice, but I found the company has slowed down as of late. One company that is not showing any sign of slowdown is Constellation Software. It's not really a dividend payer with a yield of only 0.20% and no dividend increases for a while. It's obviously not the reason why CSU is on this list. CSU is on this list due to its impressive list of acquisitions. CSU has built a unique business model where it manages hundreds (truly, the name "Constellation" was well-picked) of niche software companies. The way they approach business acquisitions and how they select each target is quite impressive. Here's a summary of their business model from their website: "*We buy Good vertical market software companies. Now and again, we buy an Exceptional company.*"

U.S. selection: Apple (AAPL) Keeper

I've debated long enough between Apple and Microsoft. In the end, I had to make a choice and I still think both companies are wonderful. Microsoft has a unique bond with corporate America, but Apple has a unique way to generate cash flow! Apple has successfully built an ecosystem of products that haven't been replicated so far. The fact all devices talk to each other and connect seamlessly creates a huge obstacle for a customer that wishes to switch his iPhone to a Google Pixel for example.

They don't make products; they provide iconic artifacts to raving fans. AAPL doesn't need to be the first mover to get the advantage on the market. With such impressive cash flow generation, they can wait and see how a new market develops. Then, it goes full strength into development and improves on what is already there. The best example we can see is the Apple Watch. Where many failed, Apple built a billion-dollar business on people's wrists!

MATERIALS

Cdn selection: CCL Industries (CCL.B.TO) Keeper

We don't talk often about CCL Industries and maybe we should! CCL is the world's largest producer of pressure-sensitive and specialty extruded film materials. In other words, we are talking about labels and foil tapes (think post-its on steroids). You probably guessed that the beauty of this product is that we always need them, they don't cost much, but we keep buying new ones. This leads to steady organic growth no matter what happens in the world. On top of that, CCL uses this predictable cash flow to expand its business and make more acquisitions. I'm not excited by the material sector, but CCL would be an exception. Another cool note is that 17% of the shares are still held by the family operating the business. You can bet your interests and managements' interests are in full alignment.

U.S. selection: Air Products & Chemicals (APD) Keeper

APD is the largest supplier of hydrogen and helium in the world with several facilities located on customer sites. This makes it a very sticky business model where customers won't expel APD from their operational sites. APD provides industrial gases that are not a big part of their customers expenses, but that are crucial for their operations. This solid business model enables predictable cash flows which has led to 40 consecutive years of dividend increases. Again, APD's business model is very hard to replicate and ensures a great future ahead.

For the record, I added APD to my retirement account (not displayed at DSR) earlier in 2023. It was on my wish list for a while!

REAL ESTATE

Cdn selection: Granite REIT (GRT.UN.TO) Keeper

If there is one REIT that I could buy and close my eyes for 10 years, it would be Granite (disclaimer: I have GRT.UN in my portfolio). Granite has been among the first industrial REITs to specialize in high-tech and specialized industrial properties. I've been quite impressed with management's long term development plan. After being spun-off by Magna International in 2003, the REIT has started its diversification process. Today, Magna remains its largest tenant (26% of revenue), but GRT has diversified its business model and focused mostly on distribution and e-commerce properties (Amazon is one of its largest tenants). Do you think this trend will die anytime soon?

With a low FFO payout ratio (around 70%), shareholders can enjoy a 3.5%+ yield that should grow and match or beat the inflation rate. This is among the rare REITs exhibiting AFFO per unit growth while issuing more units to finance growth.

U.S. selection: Equinix (EQIX) Keeper

Again, we could argue for a while on which one is the best REIT in the U.S. Two of the sleep-well-at-night REITs I love are WP Carey (WPC) and Realty Income (O). They could have made this list easily.

However, I preferred to select the leader in the growing industry of data centers. Some may argue that if you fill an RV with servers, you could create your own mobile data center. However, EQIX is going a lot further than that. This REIT is known for its co-location services. What does that mean? It means that many companies are sharing the costs of a data center. It's like having roommates to help pay the rent. It's even more interesting for companies as they also reduce their risk by dealing with a company like EQIX. The layer of redundancy is far more complex and reliable that any in-house systems built by a single company. This also enables even better response times if two companies do business together but select the same data center. Its cloud-based global platform, through a distributed infrastructure, is a critical source of differentiation, making EQIX the partner of choice for some of the largest technology companies. With over 10,000 customers, including 1,800 networks, EQIX is a well-diversified cash cow.

EQIX is the largest REIT in this industry and is diversified across the world. The need for data centers will continue to explode over the coming years.

UTILITIES

Cdn selection: Fortis (FTS.TO / FTS) Keeper

While there are several great utility stocks in Canada, Fortis is the most boring and stable of them all. The company has built an impressive portfolio of 10 regulated utility assets mostly focused on energy transmission and distribution (mostly electric and gas). The company has become a master in managing those businesses and their results are impeccable quarter after quarter. Tight management enables very low operating cost growth while FTS can pass most of the inflation on to their customers. The 49 consecutive years of dividend growth with no indication of a slowdown (future dividend growth still projected at 6%) is the ultimate proof that FTS is an all-weather company. I would also add a special mention to the Brookfield family (BIPC and BEPC).

U.S. selection: American Water Works (AWK) Keeper

We rarely talk about AWK at DSR and maybe we should give them more exposure! While I could have selected some of my favorite renewable energy companies such as Xcel Energy or Nextera Energy, I decided to go with something even more universal: water distribution. The investment thesis for such a company is simple: an investor is buying shares of a monopoly that is selling an essential product with repeat purchases. Water needs will continue to increase as the population grows and the company operates a near recession-proof business. The yield (2%) and its PE ratio doesn't make it appealing, but if you are looking for a safe place to park money for the next 10 years, I think that water is a smart play.

FINAL THOUGHT

As you can see, I hold most of my favorite stocks for each sector. Most of them share similar characteristics:

- ✓ Diversification
- ✓ Leader in their market
- ✓ Economies of scale
- ✓ Predictable cash flow
- ✓ Stable (sticky) business model
- ✓ "Essential" products / services
- ✓ Many growth vectors.
- ✓ Long dividend growth history

The key in finding the hidden gems that will thrive through the next recession isn't that difficult. Most importantly, you must select companies for which you have strong convictions that they can weather any storm.

Cheers,

Mike.

RATING CHANGES

This section communicates rating changes on the most popular stocks held at DSR. The changes mentioned below happened during this week upon our latest review.

COMPANY	SYMBOL	PREVIOUS RATINGS (PRO/DIV)	NEW RATINGS (PRO/DIV)	COMMENT

DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

OVERALL PORTFOLIO PERFORMANCE

Listed Returns are as of July 20th, 2023:

Portfolios	Inception Date	Return	Benchmark	Added Value	Annualized Return	1 Y	YTD
CAD 25K	10/31/13	198.33%	124.87%	73.46%	11.79%	8.15%	11.86%
USD 25K	10/31/13	172.97%	174.98%	-2.01%	10.78%	4.69%	7.88%
CAD 100K	10/31/13	131.91%	124.87%	7.04%	8.95%	5.10%	10.38%
USD 100K	10/31/13	212.93%	174.98%	37.95%	12.33%	9.85%	13.53%
USD 500K	05/31/14	112.46%	144.23%	-31.78%	8.59%	4.74%	8.25%
CAD 500K	05/31/14	123.51%	97.87%	25.64%	9.20%	5.44%	7.68%
100% CAD	07/31/17	75.15%	48.83%	26.32%	10.00%	3.26%	9.66%
Retirement CAD	07/31/18	36.62%	37.79%	-1.17%	6.47%	-8.64%	6.70%
Retirement USD	07/31/18	58.02%	66.03%	-8.01%	9.64%	-3.58%	3.46%

*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.

Benchmarks are VIG and XDV.TO for all portfolios.