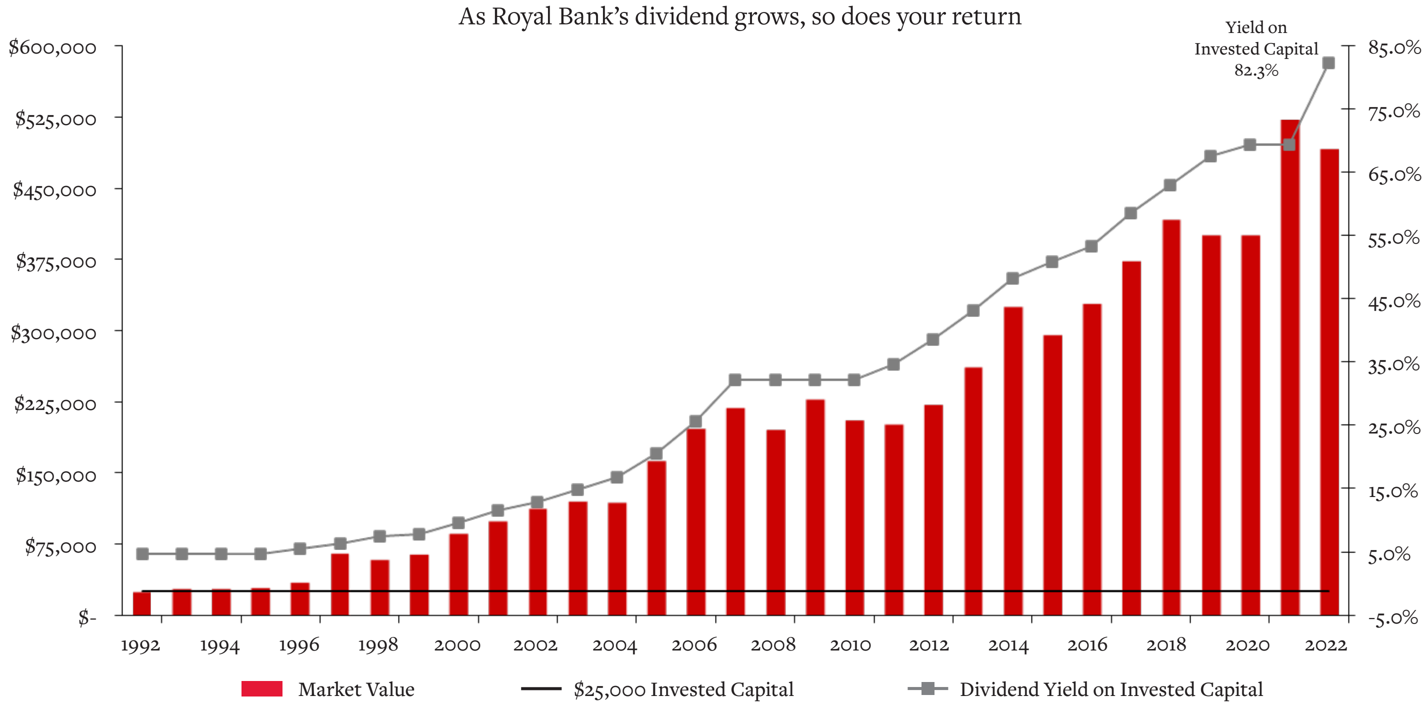
Cardinal Update

You Can Bank on Dividends

BY GEOFF KIRBYSON

THE POWER OF DIVIDEND GROWTH

As Royal Bank's dividend grows, so does your return



Assumes initial investment of $25,000 and no dividend reinvestment
Data: as of August 31, 2022

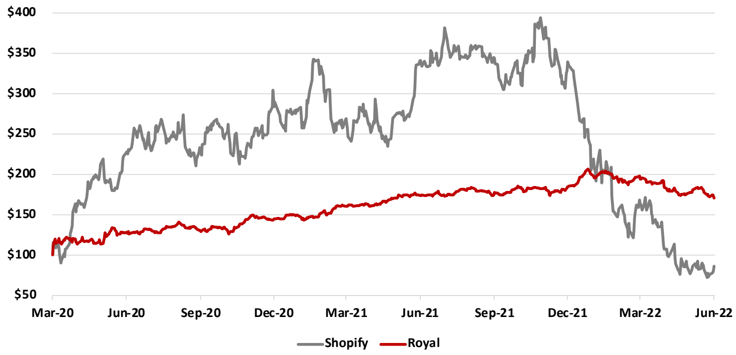
If you invested in Shopify in 2019 believing that it would go to the moon and overtake the Royal Bank of Canada as the country's biggest publicly-traded company two years later, you could have retired to the Caribbean by now.

Isn't it amazing feeling the sand between your toes everyday while the bartend…wait, you're still here?

The Ottawa-based provider of tools to help companies set up online stores surpassed RBC mere weeks into the pandemic as tech companies thrived under stay-at-home mandates. Over the ensuing two-and-a-half years, Shopify's shares had a meteoric rise from less than $20 to more than $213.

ROYAL BANK VS SHOPIFY PRICE COMPARISON

March 23, 2020 to June 30, 2022



Values are Indexed to 100
Data: as of June 30, 2022

	RBC	Shopify
Market Cap	$174.8b	$46.4b
Dividend Yield	4.1%	0.0%
NTM Price to Earnings	11.0x	439.2x

It was the undisputed darling of the S&P/TSX.

But like every other company to edge past RBC in recent memory – Valeant Pharmaceuticals (since renamed Bausch Health Companies), BlackBerry Ltd. (then known as Research In Motion) and Nortel Networks (which subsequently filed for bankruptcy and was liquidated) – Shopify fell off the top of the podium less than a year later.

Since last fall, Shopify has been on a slippery slope with its shares plummeting to about $42. That's a decline of more than 80 per cent. This is what can happen when you gamble on companies that don't have a lengthy track record of growing revenues, earnings and dividends.

Can your retirement or other financial goals withstand that kind of roller-coaster ride?

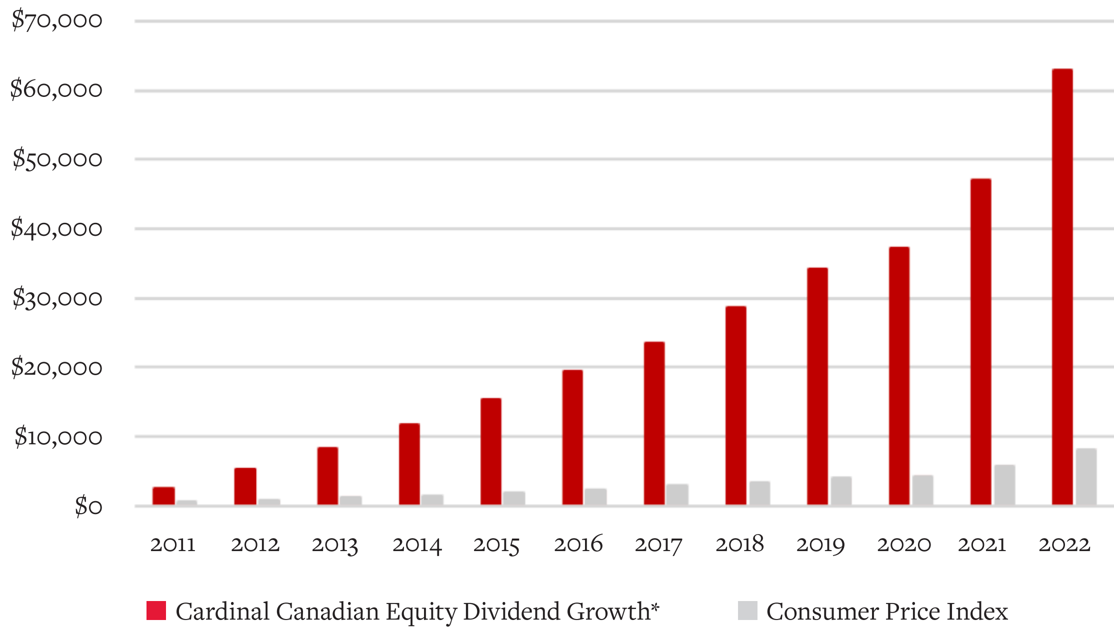
Shopify, which does not pay a dividend, exemplifies perhaps the greatest shortfall of non-dividend paying companies which is you've got to rely solely on share price appreciation to see gains in your investment. So, if you'd had a crystal ball and liquidated your Shopify shares when they were north of $200, you made out like a bandit.

But you didn't.

RBC's shares, meanwhile, bottomed out at $78.50 as the pandemic took hold -- down from their recent highs of $109 – but they've been on an upward trajectory ever since and are now trading even higher around $130 each.

While both companies have experienced a range of valuations, no matter what RBC's share price was, the company continued to pay out a dividend. In fact, over the last year, it has increased its dividend from $1.08 per share to $1.28 per share.

DIVIDEND GROWTH PROTECTS AGAINST INFLATION



*2022 is based on the previous 12 months of data as of July 31, 2022 while all other metrics are year-end.

Assumes $25,000 of income to begin and displays additional income from dividend increases vs additional cost from inflation.

Years 2010 to 2016 assumes a 10.1% annual dividend growth rate.

CPI is seasonally adjusted and is presented as an annual rate.

CPI Source: Statistics Canada

Sheila Wilson-Kowal, portfolio manager at Cardinal, says dividends can make up a significant portion of your total return. Perhaps most importantly, many large-cap companies such as RBC don't cut their dividends during temporary business dips.

"You can bank on that," she says, noting the Cardinal investment philosophy is to invest in industry-leading companies with a lengthy track record, predictable earnings and that pay a dividend.

Even better, dividends tend to be a leading indicator of a company's share price.

"If you're investing in dividend-paying companies that can grow their dividends, it's because they have earnings backing them up. If your earnings are growing and they double in seven to 10 years, in theory, the share price should also reflect that," Wilson-Kowal says.

We often compare dividend investors to owners of an apartment building. If your rents are going up every year, eventually you'll be earning double the original income from your tenants.

It's not exciting but that's the point. You don't want to see your investments making the front page of the newspaper.

During this period of record-setting inflation, it's comforting to know that dividend growth is also a source of inflation-protected income while reinvested dividends have a significant impact on long-term portfolio performance and accelerate wealth accumulation.

Not only that but dividend-paying stocks are often preferable to bonds because dividend payouts can grow over time while bond coupons are fixed and may not exceed inflation.

"A lot of people aren't aware of how much dividends can grow and add up over time. They're predictable, reliable and they grow faster than inflation," Wilson-Kowal says.

COMPANY FOCUS: SIEMENS

Siemens is a Germany-based global industrial company that has recently refocused its activities on the growth areas of industrial software, industrial automation and healthcare. Thanks to a number of recent divestitures and spin-offs, about two-thirds of its revenues are now derived from these attractive sectors.

In fact, Siemens has become a global leader in industrial software and automation. It is benefitting from recent developments, including that half of all manufacturing tasks today can be automated plus corporations' never-ending quest to maximize automation in order to remain competitive.

Industrial software is carving out an ever-increasing niche as it facilitates the optimal design of entire factories – as well as the products they make – before a shovel goes into the ground.

On the healthcare front, the company owns a majority stake in Siemens Healthineers, which sells equipment for medical imaging and oncology treatments. Its diagnostics division, meanwhile, has produced a significant number of COVID-19 rapid antigen tests.

Siemens currently trades at a discounted valuation versus its peers and has a dividend yield of 3.9 per cent. The dividend has grown at a 7.2 per cent compounded annual growth rate over the last 20 years.

DIVIDEND INCREASES

Company Name	Dividend Increase
Pembina Pipeline	3.6%

(For the period Aug. 1-31, 2022)

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Cardinal CAPITAL MANAGEMENT 30 YEARS