

# Update Edition

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**Editor and Publisher: Gordon Pape**  
**Associate Publisher: Richard Croft**  
**Associate Editor: Mike Keerma**

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**Phone:** 1-888-287-8229  
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## BROOKFIELD TWINS PAY OFF

*By Gordon Pape, Editor and Publisher*

There's nothing investors like more than a security that grows steadily in value over time while increasing its payments every year.

If you haven't done so already, meet the Bermuda-based Brookfield twins. They've been doing exactly that for many years. Investors have enjoyed big-time capital gains, while their income from these cash cows continues to increase.

The securities are Brookfield Infrastructure Limited Partnership (TSX: BIP.UN, NYSE: BIP) and Brookfield Renewable Partners (TSX: BEP.UN, NYSE: BEP). Both recently reported strong annual results for 2020 and both raised their annual distributions by 5%.

BEP was first recommended here as Great Lakes Hydro in July 2009 at a split-adjusted price of \$11.08 per unit. It closed in Toronto on Feb. 5 at \$60.09, for a capital gain of 442%. Distributions have increased every year. As an added bonus, both entities spun off corporations in 2020, giving shares to existing unit holders. These companies, BIPC and BEPC, trade in both Toronto and New York at premium prices to the partnership units.

On Feb. 4, BEP announced record results for 2020 and CEO Connor Teskey said the partnership was looking forward "to a multi-decade opportunity to advance decarbonization and assist with the transition of global electricity grids to a more sustainable future."

For the full year, BEP reported generation of 26,052 GWh. Normalized funds from operations (FFO) were \$924 million (\$1.52 per unit) compared to \$725 million (\$1.24 per unit) in 2019. (Figures in U.S. dollars.)

BEP continues its policy of selling mature assets at a profit and reinvesting in new purchases with what management perceives to have greater growth potential.

In December, it agreed to acquire an interest in Exelon Generation Company's U.S. distributed generation (DG) business comprising 360 megawatts of operating generation across nearly 600 sites with an additional over 700 megawatts under development. The cost was \$810 million (approximately \$200 million net to Brookfield Renewable).

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**Brookfield - continued from page 1...**

The same month, BEP bought an interest in Oregon's Shepherds Flat wind farm, an 845 megawatt fully contracted wind generation facility. Total cost was \$700 million, of which \$175 million is Brookfield's share. This is one of the largest onshore wind projects in the United States and BEP expects to increase total generation by approximately 25% in 2022, raising the clean energy produced by approximately 400 gigawatt hours annually.

Clearly, BEP is not sitting on its laurels. I expect to see more of the same over the next decade in capital gains and distribution increases.

One day earlier, BIP released its results for fiscal 2020. We first recommended the partnership in Income Investor in September 2010 at \$11.21 (split-adjusted). It closed on Feb. 5 at \$68.91 for a capital gain of 515%.

For the full 2020 year, the partnership reported FFO of \$1.454 billion (\$3.13 per unit), up 5% from \$1.384 billion (\$3.06 per unit) in 2019.

"2020 provided a unique backdrop to showcase the resilience and strength of our business," said CEO Sam Pollock. "We were also able to invest in high quality

assets that were immediately accretive to our results. We are beginning 2021 with a robust liquidity position which will allow us to pursue attractive opportunities and convert them into meaningful investments."

Management said it deployed \$2.5 billion in new investments and organic capital projects during the year. This included increasing its presence in India's rapidly expanding data infrastructure sector with the acquisition of a large-scale portfolio of telecom towers.

In early February, BIP announced it is selling its North American district energy business, Enwave, for \$4.1 billion. The partnership originally acquired Enwave in 2012 for C\$480 million and has built it into the largest system of its kind in North America. (District energy businesses provide heating and cooling services to buildings from a central plant). The proceeds from the sale will be recycled into new projects.

I expect both BEP and BIP to continue to prosper in future. Despite the big run-up in prices, I rate both as Buys.

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## **DIVIDEND HIKES**

*By Gordon Pape*

Last year was a difficult one for many companies. The pandemic-induced recession sliced into revenue and profits for a wide range of businesses. Some, such as Suncor, had to cut dividends. Others struggled to maintain their payouts in the face of a brutal financial crunch.

The big banks, typically among the leaders in dividend hikes, were ordered last April by the Office of the Superintendent of Financial Institutions not to raise their payments. That order is still in effect.

As a result, any dividend increases came as a pleasant surprise to investors. And there were more of them than you might expect among our recommended companies. Here are some that have announced or implemented increases over the past six months. They are listed in order of percentage increases, from highest to lowest.

**North West Company (TSX: NWC, OTC: NWTYF).** This venerable Canadian company, which operates general stores across the Arctic, raised its dividend by \$0.03 a

share (9.1%), effective with the October payment. The announcement came as the company reported that second quarter sales increased 23% to \$648.5 million and net earnings increased \$44.6 million to \$62.6 million. The performance was driven by COVID-19 related factors, including a shift towards in-community and at-home spending as well as basic income support provided by different jurisdictions within which NWC operates.

**Canadian National Railroad (TSX: CNR, NYSE: CNI).** In late January, CN issued a statement saying it is increasing its quarterly dividend by 7%, to \$0.615 (\$2.46 per year), effective March 31. The stock yields 1.8% at the current price. But this is a classic example of how regular dividend increases will pay off over time. CN was originally recommended by contributing editor Gavin Graham in October 2005 at \$21.09. Readers who bought at that time and held on not only have a huge capital gain but are now enjoying a yield of 11.7%, based on the original purchase price.

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**Dividend - continued from page 2...**

**Capital Power (TSX: CPX).** Utilities are always a safe bet to increase dividends, even in the toughest economic times. Alberta based Capital Power implemented a 6.8% hike with the September payment. The quarterly payout is now \$0.5125 (\$2.05 per year) to yield 5.4%.

**Fortis Inc. (TSX, NYSE: FTS).** Last September, Fortis Inc. announced a dividend increase for the 47<sup>th</sup> consecutive year. The hike was 5.8%, to \$0.505 per quarter (\$2.02 annually) and became effective with the November payment. The company also extended its dividend increase guidance of 6% a year to 2025.

**BCE Inc. (TSX, NYSE: BCE).** Last week, BCE announced a 5.1% increase in its quarterly dividend to \$0.875 per share (\$3.50 per year), effective with the April payment. At the current price, the stock yields 6.3%.

**Brookfield Renewable Partners (TSX: BEP.UN, NYSE: BEP).** The limited partnership announced a 5% distribution increase on Feb. 4, effective with the March 31 payment. The new quarterly rate will be US\$0.30375

per unit (US\$1.215 per year). At the current price, the 2021 yield will be 2.6%.

**Brookfield Infrastructure Partners (TSX: BIP.UN, NYSE: BIP).** We also saw a 5% increase in the distribution from another Bermuda-based Brookfield Partnership, this one focused on infrastructure. The new quarterly payment will be US\$0.51 per unit (US\$2.04 per year). The yield is 3.8%.

**Emera (TSX: EMA, OTC: EMRAF).** This Halifax-based utility, which has operations in Canada, the U.S., and the Caribbean, announced a 4.1% dividend increase in September and said to expect another hike in the 4-5% range in 2022. The new quarterly rate is \$0.6375 per share (\$2.55 a year). The stock yields 4.9%.

**Enbridge (TSX, NYSE: ENB).** The company announced in early December that the quarterly dividend would go up by 3.1%, from \$0.81 per share to \$0.835. The new rate takes effect with the March 1 payment. The increase pushes the annual payout to \$3.34. At that rate, the stock will yield 7.4%.

## **GORDON PAPE'S UPDATES**

### **BCE Inc. (TSX, NYSE: BCE)**

**Type:** Common stock

**Current price:** C\$55.64, US\$43.59 (Feb. 8)

**Originally recommended:** July 25/12 at C\$41.98, US\$41.49

**Annual payout:** \$3.50

**Yield:** 6.3%

**Risk:** Moderate

**Website:** [www.bce.ca](http://www.bce.ca)

**Comments:** BCE is Canada's largest communications company, providing a comprehensive suite of broadband, mobile, landline, and cable communication services to residential and business customers through Bell Canada and Bell Aliant. Bell Media is the company's multimedia arm, with assets in television, radio, and digital media. Television assets include the CTV television network and many of the country's most-watched specialty channels.

BCE reported fourth quarter and year-end financial results last week, with small declines in both operating revenue and adjusted earnings.

For the quarter, operating revenue was \$6.1 billion, down 2.8% from just under \$6.3 billion in the same period last year. Full year results show operating revenue of \$22.9 billion, down 3.8% from \$23.8 billion in 2019.

Adjusted net earnings for the fourth quarter were \$731 million (\$0.81 per share), down 6.8% from \$784 million (\$0.86 per share) in the prior year. On a per share basis, the decline was 5.8%. For fiscal 2020, adjusted earnings were \$2.7 billion (\$3.02 per share) compared to \$3.1 billion (\$3.46 per share) in 2019.

"In every successive quarter since COVID-19 began, Bell has delivered sequential quarterly improvement in our operating results, underscoring the stability and resiliency of our company and the strength of our financial position," said chief financial officer Glen LeBlanc. "As we enter 2021, our business fundamentals are sound, our competitive position remains strong and the Bell team's ability to execute is proven."

The company projected revenue growth of 2-5% in 2021 and adjusted EPS growth of 1-6%.

The company announced a 5.1% increase in its quarterly dividend to \$0.875 per share (\$3.50 per year), effective with the April payment. Based on that increase, the stock yields 6.2% at the current price.

**Action now:** Buy for yield and modest long-term capital gains.

## YOUR QUESTIONS

### Withdrawing RRIF assets

**Q** – My wife and I are both 71 and have converted our RRSPs to RRIFs in anticipation of starting to withdraw funds this year. I believe I heard that it is possible to just transfer the appropriate amount of the funds we have into our non-registered account without actually selling anything. The value of the transferred funds at that time is taxable, of course. Please confirm that this is possible. - Jim and Cathy F.

**A** – Yes. It's called an in-kind withdrawal. The securities that come out of plan will be taxed on the basis of their market value at the time of withdrawal. – G.P.

### Solving a mystery

**Q** – I am thinking of adding to my portfolio. The stocks that I am looking at are BEP and BEPC. I have done some research on them, but quite frankly, I don't understand the difference between the two. Can you help me unfold this mystery? – Kathie S.

**A** – For starters, we're talking about the same business.

BEP and BEP.UN are the trading symbols for Brookfield Energy Partners, a limited partnership based in Bermuda. BEPC is the symbol for Brookfield Renewable Corporation. It was spun out of the limited partnership a few months ago to create a trading vehicle that would be eligible for the Canadian dividend tax credit and would attract institutional investors like pension plans that are unable or reluctant to invest in partnerships.

BEP and BEPC hold similar (but not the same) assets, pay the same distribution/dividend, and were expected to trade at about the same price. BEP.UN closed in Toronto on Jan. 22 at \$62.70, to yield 2.34%. The same day, BEPC finished at \$74.66 to yield 1.97%.

Both entities look expensive at these prices, but if you want to invest at this time, I recommend BEP/BEP.UN for its higher yield, if you are investing in a registered plan. In a non-registered

account, the dividend tax credit will offset the lower yield of BEPC to some extent. – G.P.

### Taxing bond ETFs

**Q** – Are ETFs such as XBB, which trade like stocks but hold bonds in their portfolio, taxed by the CRA as are shares in a corporation or like bonds? – Al O.

**A** – Distributions are taxed based on their nature – interest income, dividends, capital gains, return of capital, etc. These are calculated by the sponsoring company and you'll receive a tax slip from your broker. In the case of XBB, which is a universe bond fund, most of the distribution income will be in the form of interest and taxed accordingly, unless the units are held in a registered account.

Capital gains or losses on the sale of an ETF are all calculated in the same way, regardless of whether the fund invests in stocks or bonds. – G.P.

### Wife's RRSP

**Q** – My wife has an RRSP (\$123,344) that I invest in an HSBC Invest Direct account. She turns 71 this year and I understand we have to set up a RRIF for her. What steps should I take today? – Jack H.

**A** – She doesn't actually have to convert until the end of December. However, at this stage you should look at the plan carefully to see if some changes should be made in the portfolio to add safety and cash flow. RRSPs should tend to be growth oriented. A RRIF should be designed to protect capital and provide income for withdrawals.

So, you should look to see if she is holding securities that are more oriented to capital gains than to dividends/distributions. If so, you may want to replace them.

One more point. You didn't provide your age. If you are younger than your wife, make sure your age is used when the transition to her RRIF is made. That will reduce the minimum she has to withdraw each year (she can always take more if needed). – G.P.