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Next update issue:
April 11

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April 25

HIGH YIELD PORTFOLIO REBOUNDS*By Gordon Pape, Editor and Publisher*

Every time I reviewed our High-Yield Portfolio in recent years, I've noted the negative impact of rising interest rates. Thankfully, that phase appears to be over. Interest rates have stabilized and are poised to drop later this year. The result has been a strong rebound for most of our high-yield stocks.

This portfolio was created in March 2012 for investors who are looking for above-average dividend income and who can live with somewhat more risk. The portfolio invests entirely in stocks, so it is best suited for non-registered accounts where any capital losses can be deducted from taxable capital gains. Also, Canadian dividends are eligible for the dividend tax credit.

The initial portfolio value was \$24,947.30, and I set a target average annual total rate of return of 7% to 8%, with an annual yield of around 5%.

Here is a review of the securities we own and how they have performed in the time since our last review in September. Results are to March 22.

Enbridge Inc. (TSX, NYSE: ENB). The stock is up \$1.67 from the last review. The quarterly dividend was increased in February to \$0.915. The stock yields 7.6% at the new rate.

Pembina Pipeline Corp. (TSX, NYSE: PPL). Stable interest rates boosted the stock, which gained \$6.41 in the latest six-month period. We received two dividend payments that totaled \$1.335. At the current price, the dividend yield is 5.6%.

Sun Life Financial Inc. (TSX, NYSE: SLF). SLF continued its strong recovery and added \$6.71 in the latest six-month period. The quarterly dividend was increased by 4%, to \$0.78, in November. The current yield is 4.2%.

Capital Power Corp. (TSX: CPX). The stock lost \$1.57 in the latest period, but we received two dividends totaling \$1.33 a share. The dividend yield is 6.3% at the current price.

Canadian Imperial Bank of Commerce (TSX, NYSE: CM). The bank

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High-yield portfolio – continued from page 1...

stocks have recovered strongly as recession fears have eased and interest rates stabilized. CIBC is up \$14.25 since September. The bank raised its quarterly payout to \$0.90 per share in December. The stock now yields 5.3%, which is still high for a big-five bank, but down from 6.4% at the time of our last review.

Brookfield Energy Partners (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership invests in an international portfolio of clean energy properties, mainly hydro. Green energy stocks continue to struggle, and the units are down \$3.23 from the last review. The quarterly distribution was raised to US\$0.355 in February for a yield of 6.2%.

BCE Inc. (TSX, NYSE: BCE). BCE shares went into freefall after the company announced weak earnings and major layoffs. The stock was down \$7.88 in the latest six-month period, after a previous decline of \$7.05. This is a huge drop for a normally stable company and may reflect investors' concern over the safety of the dividend. The dividend was raised this month to \$0.9975 per quarter (\$3.87 a year). The stock yields 8.4%, which is unusually high for this company and a strong caution signal.

Firm Capital (TSX: FC). Mortgage investment corporations normally see their share prices decline when rates rise, but when they switch direction, these shares move up. That's where we're at now – the shares gained \$1.41 in the latest period. We should see more of this if interest rates fall as expected later this year. The

monthly cash flow is steady at \$0.078, with a yield of 8.2%.

Freehold Royalties (TSX: FRU). We added Freehold Royalties a year ago at a price of \$14.10. The shares are now priced at \$14.53, and we are receiving monthly dividends of \$0.09, for a yield of 7.4%.

North West Company Inc. (TSX: NWC). This company has a long history, with a prime focus on general stores in Northern Canada and Alaska. The shares are up \$3.23 since the last review, and we received two dividends of \$0.39 each. The yield is 4%.

Automotive Properties REIT (TSX: APR.UN). Automotive Properties is the only listed REIT focusing on owning and acquiring automotive dealerships in Canada. It was added to the portfolio in September 2022 at \$13.20. The price has been retreating since. Monthly distributions are \$0.067 per unit, to yield 7.9%.

We put all our cash and retained earnings (\$4,975.73) in a six-month GIC with EQ bank paying 5%. We received \$124.39 in interest. We will add that amount to cash and restore the retained earnings to their respective stocks.

The table below shows what the portfolio looked like on March 22. The weighting is the percentage of the market value of the security in relation to the total market value of the portfolio. The gain/loss shows the performance of the security since it was added to the portfolio. Sales commissions and exchange rates are not considered.

Income Investor High Yield Portfolio (a/o March 22/24)

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/Loss %
ENB	7.4	90	\$43.98	\$3,957.80	\$48.21	\$4,338.90	\$646.22	+26.0
PPL	12.1	150	\$33.31	\$4,996.65	\$47.28	\$7,092.00	\$597.75	+53.9
SLF	18.7	150	\$31.54	\$4,730.75	\$73.80	\$11,070.00	\$882.00	+152.6
CPX	8.0	120	\$32.12	\$3,854.40	\$39.15	\$4,698.00	\$557.90	+36.4
CM	13.9	120	\$56.85	\$6,822.00	\$68.28	\$8,193.60	\$870.80	+32.9
BEP.UN	5.1	100	\$24.13	\$2,413.00	\$31.21	\$3,121.00	\$441.24	+47.6
BCE	5.4	70	\$56.75	\$3,972.40	\$45.86	\$3,210.20	\$778.96	+0.04
FC	8.7	450	\$14.71	\$6,621.40	\$11.39	\$5,125.90	\$445.50	-15.4
FRU	4.3	170	\$14.10	\$2,397.00	\$14.53	\$2,470.10	\$183.60	+10.7
NWC	9.9	150	\$27.03	\$4,054.90	\$39.09	\$5,863.50	\$231.00	+45.9
APR.UN	5.0	290	\$13.18	\$3,823.20	\$10.20	\$2,958.00	\$270.45	-15.6
Cash	1.5			\$752.30		\$903.62		
Total	100.0			\$48,395.80		\$59,044.42	\$5,905.42	+34.2
Inception				\$24,947.30				+160.3

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High-yield portfolio – continued from page 2...

Comments: The portfolio has a total value of \$64,949.84 and is up 9.2% since the last review. We can thank the pause in rate hikes for this result.

We have a total return of 160.3% in the 12 years since inception. That translates into an average annual growth rate of 8.3%, which is above our target range.

In terms of cash flow, the portfolio earned \$1,832.41 in the latest six months, for a yield of 3.1% in that time. Over a full year, that would work out to 6.2%. Our cash flow target is 5%, so the portfolio is doing its job.

Changes: It's time to make a couple of changes. The Automotive Properties REIT has been a disappointment, so we will sell our units for \$2,958. Add the retained earnings and we have \$3,228.45.

We will also sell our position in Brookfield Energy Partners for \$3,562.24, including retained earnings. That gives us a total of \$6,790.69 to reinvest.

We will invest in **Power Corporation of Canada (TSX: POW)**, a conglomerate with interests in life insurance (Great-West Life), asset management, and banking. The stock is trading at \$37.98 and pays a quarterly dividend of \$0.525 (\$2.10 a year) to yield 5.5%. The company has a long history of raising dividends.

We will buy 180 shares for a cost of \$6,836.40. We'll take \$45.71 from cash to make up the difference.

We will also reinvest some of our retained earnings as follows:

ENB – We'll add 10 shares at a cost of \$482.10. That will give us 100 shares total and reduce retained earnings to \$164.12.

PPL – We have enough to purchase 10 shares for a cost of \$472.80. That gives us 160 shares and retained earnings of \$124.95.

SLF – We'll buy 10 shares for \$738. We now own 160 shares and have \$144 left.

CPX – We're adding 10 shares at a cost of \$391.50. We now own 130 shares and have \$166.40 remaining.

CM – We have enough to buy 10 shares of CIBC for \$682.80. That gives us 130 shares, with \$188 left.

BCE – I'm concerned about the performance of this stock, but it's cheap and has a high yield. So, we'll buy another 10 shares for \$458.60. This brings our total to 80 shares and leaves \$320.36 in reserve.

FC – We'll add 30 shares at a cost of \$341.70. That brings our total to 480 shares, with \$103.80 remaining.

We have cash and retained earnings of \$2,484.14. Duca Credit Union has a 6% promotion offer available, so we'll open an account there.

Here is the revised portfolio. I'll review it again in September.

Income Investor High Yield Portfolio (revised March 22/24)

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
ENB	7.6	100	\$44.40	\$4,439.90	\$48.21	\$4,821.00	\$164.12
PPL	11.9	160	\$34.18	\$5,469.45	\$47.28	\$7,564.80	\$124.95
SLF	18.6	160	\$34.18	\$5,468.75	\$73.80	\$11,808.00	\$144.00
CPX	8.0	130	\$32.66	\$4,245.90	\$39.15	\$5,089.50	\$166.40
CM	14.0	130	\$57.73	\$7,504.80	\$68.28	\$8,876.40	\$188.00
POW	11.0	180	\$37.98	\$6,836.40	\$37.98	\$6,836.40	\$0
BCE	5.8	80	\$55.39	\$4,431.00	\$45.86	\$3,668.80	\$320.36
FC	8.6	480	\$14.51	\$6,963.10	\$11.39	\$5,467.20	\$103.80
FRU	3.9	170	\$14.10	\$2,397.00	\$14.53	\$2,470.10	\$183.60
NWC	9.2	150	\$27.03	\$4,054.90	\$39.09	\$5,863.50	\$231.00
Cash	1.4			\$857.91		\$857.91	
Total	100.0			\$52,669.11		\$63,323.61	\$1,626.23
Inception				\$24,947.30			

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CENTRAL BANKS SIGNAL RATE CUTS AHEAD

By Gavin Graham, Contributing Editor

The recently announced interest rate decisions by the US Federal Reserve, Bank of Canada, Bank of England, and the Swiss National Bank (SNB) all showed that central banks are preparing to cut short-term interest rates later this year. In the case of the SNB, it did cut rates from 1.75% to 1.5%. The statements by the other central bank chiefs made it plain that they were not unduly influenced by the uptick in CPI and PPI in the first two months of the year.

Fed Chairman Jerome Powell stated: "We believe that interest rates are at their peak." He characterized the level of rates as restrictive and added that "it will likely be appropriate to begin dialing back policy restraint at some point this year." The Federal Open Market Committee (FOMC) members' expectation of where interest rates will be in a year's time (the so-called dot plot, which is the method of tracking members' forecasts) still shows three 25 basis point cuts by the end of 2024, bringing rates down to 4.5%-4.75% from their current of 5.25%-5.5%. Given that US CPI has fallen to 3.2% from over 6% a year ago, it's understandable the Fed feels it can begin to loosen monetary conditions.

The minutes of the Bank of Canada's discussions in early March said that "members agreed that if the economy evolves in line with the Bank's projection, the conditions for rate cuts should materialize over the course of this year." Many observers cited the lower-than-expected CPI readings for January (2.9%) and February (2.8%) as a driver for the first cut from the present 5% rate as early as June. The Bank of England also saw lower-than-expected inflation in February (3.9%), helping the case for lower interest rates, although it too left them unchanged at 5.25%.

Given that the yield curve remains inverted, with short-term rates (5%-5.5%) being higher than long term (10-year) rates (4.3% in the US and 3.5% in Canada) for the last 18 months, the continued strength in many sectors of the North American economy has convinced observers that the fabled soft landing is the most likely outcome. This despite the inverted yield curve having successfully forecast recessions for the last 50 years.

Several well-regarded economists, such as David Rosenberg, who successfully forecast the 2008-09

recession at a time (late 2007) when most of his colleagues were more optimistic, point out that real retail sales (after inflation) are down 5.6% in the first two months of 2024 and industrial production is down 2%. The record shows that both have been down only 17.5% of the time since World War II, but 52% of the time during recessions.

Mr. Rosenberg notes that his in-house model is indicating a 1.4% contraction in first-quarter US GDP. Given that the average US credit card interest rate has increased to a record high 21.9% from 14.9% before the pandemic, the squeeze on consumer incomes is continuing. The effect of the pandemic stimulus, when cheques were dispatched to every US and Canadian taxpayer, is wearing off and savings rates are back down to where they were in 2019.

Given the likelihood of at least an economic slowdown occurring this year, the fact that major stock indexes are hitting all-time highs seems paradoxical. The S&P 500 is at record highs. The Japanese Nikkei 225 has finally exceeded its 1989 high and the Bank of Japan raised interest rates for the first time in 17 years. Even the Canadian and UK markets, held back by their high exposure to financials, energy, and materials and low exposure to desirable technology stocks, are nearing their previous all-time highs.

While the stock index valuations are not as excessive as at the height of the technology bubble in 1999-2000, thanks to the enormous profitability of the so-called Magnificent Seven large-cap technology stocks, nevertheless they are at levels that, historically, have yielded disappointing returns over the following 10 years (2%-4% annually).

In addition to the stock markets, other assets such as crypto currency and gold have also been hitting new highs, with Bitcoin exceeding US\$72,000 and gold topping US\$2,200 an oz. This indicates that the central banks' willingness to consider cutting interest rates means financial conditions will loosen and inflation may yet make a comeback. Some unkind commentators have accused Mr. Powell of "channeling his inner Arthur Burns." The unfortunate Mr. Burns was the Fed Chair in

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Rate cuts ahead – continued from page 4...

the 1970s who eased interest rates too early after the initial burst of oil-price-inspired inflation after the Yom Kippur war in October 1973. That led to inflation returning with a vengeance in the late 1970s, topping 10% in the US and Canada.

Investors should be looking at sectors that have been lagging due to the regime of high interest rates. They include high-yielding sectors with high levels of debt, such as utilities, pipelines, REITs, and financials, some of which have been recommended in *The Income Investor*. Their valuations are attractive, their yields are high but sustainable, their dividends in some cases have been increased, and their prices have held back as flows have rushed into technology and other growth sectors.

Other sectors worth looking at are those that have suffered due to the squeeze on consumer incomes during what has been called the “cost of living crisis.” To those investors who remember the high inflation years of the 1970s and early 1980s, the level of inflation experienced in the last two years may seem fairly low, but an entire generation has grown up never experiencing any price increases higher than 1%-3% annually. No wonder they are now suffering sticker shock.

As a result, having spent heavily on physical goods like consumer electronics, construction materials, and gadgets during the pandemic when services such as eating out, travel, and sports were either prohibited or very difficult to access, consumers have now been “revenge spending” on “experiences”. They have substantially reduced their purchase of goods, while also trading down to cheaper substitutes (e.g., chicken rather than steak) as inflation devastated purchasing power.

Several consumer discretionary stocks have been reporting disappointing earnings and revenues, including convenience store operator Alimentation Couche-Tard, liquor and wine makers Corby Sprits and Andrew Peller, supermarket chain Empire, and general retailer Canadian Tire. It's this latter company that is this month's Top Pick. Its stock is no higher than it was five years ago while the company continues to expand its store network. Details follow.

Gavin Graham has had a long and successful career in money management and is a specialist in international securities. He held senior positions in financial organizations in London, Hong Kong, and Toronto. He is also a Trustee of the Royal Medical Foundation Investment Committee. He divides his time between Canada and the UK.

TOP PICK

Here is our Top Pick for this month. Prices are as of the close of trading on March 25 unless otherwise indicated.

Canadian Tire Corporation (TSX: CTC.A)

Type: Common stock

Current price: \$131.47

Annual payout: \$7.00

Yield: 5.3%

Risk: Moderate

Website: www.canadiantire.ca

The business: Canadian Tire, which celebrated its 100th anniversary last year, is one of Canada's leading retail brands, with 100% name recognition. It is estimated that 80+% of Canadians shop at Canadian Tire (CTC) each year. The company had delivered same store sales growth (SSSG) at stores open for at least a year for the decade up to 2023.

CTC was considered an essential retailer during the pandemic and benefited from the growth in sales of home

improvement and outdoor activities. Having purchased several well-regarded brands, such as winter wear producer Helle Hansen and hockey equipment maker Sherwood, which Chicago Blackhawks hockey star Connor Bedard uses, CTC is aiming to increase its share of own-label brands to 43% from 38% over the five years from 2022.

The security: Canadian Tire has a market capitalization of \$7.7 billion and is one of the 100 largest companies in Canada. Its stock trades an average 258,000 shares per day.

Performance: With CTC selling at approximately the same price as five years ago (down 7% before dividends), all short-term bad news seems reflected in the price. Operating income is down by one third, to \$1.28 billion in 2023, largely due to the weak seasonal sales. Provisions for credit losses (PCLs) on its credit card portfolio increased 33% (its fourth-quarter past due receivables climbed to 3.6% from 3.3%). However, management anticipates these are short-term in nature.

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Top Pick – continued from page 5...

Financial highlights: In the 12 months to Dec. 31, CTC saw full-year revenue fall 6.4%, to \$16.7 billion, and SSSG fell 2.9% (3.1% excluding petroleum). The results were driven largely by a very weak fourth quarter, where revenue was down 16.8%, to \$4.4 billion. SSSG was down 6.8% (6.9% excluding petroleum) of which the mild winter accounted for around half.

CEO Greg Hicks said 2023 was more challenging than expected, with a fairly material decline due to the lower sales of seasonal items like Christmas decorations and cold weather products like boots at Mark's Work Wearhouse and skis at Sport Chek.

Net income fell to \$172.5 million in the fourth quarter compared with \$531.9 million a year ago. Excluding some normalizing items, earnings per share (EPS) fell to \$3.38 from \$9.34 in the same quarter in 2022, of which \$2.26 reflected an accounting change on how it records a margin-sharing arrangement with Canadian Tire store owners.

Categories regarded as essential, such as pet care and automotive supplies, outperformed discretionary items. Even offering aggressive sales promotions was not successful in moving items. "Even with substantially deeper discounts, we aren't seeing incremental demand materialize," said Mr. Hicks.

Recent developments: CTC bought back the 20% minority stake in its financial services business held by Scotiabank in October 2023 for \$895 million. That gave it gaining complete ownership of the 2.3 million Triangle loyalty-branded credit cards. While accounting for only 10% of CTC's revenue, it contributed 28.7% of its 2022 earnings. CTC is the seventh-largest issuer of credit cards by receivables in Canada, with average receivables of \$7.1 billion in mid-2023.

Why we like it: While its capital expenditure program in 2024 has been reduced to \$475-\$525 million from the \$550-\$600 million forecast a few months ago, falling interest rates should enable a recovery in sales. The "Better Connected" strategy the company announced in March 2022, anticipated \$3.4 billion over the four-year program, on store upgrades, additional warehouse construction, new product launches, and the expansion of its Triangle loyalty program, of which \$1.4 billion has been spent so far.

Distributions: CTC has raised its dividend every year for the last decade, to a current \$7 a year from \$2. Most recently it increased its dividend by \$1.75 per share (1.1%) this year, giving a yield equivalent to 5.3%. The dividends are eligible for the dividend tax credit for Canadian investors. The dividend has grown strongly over the last decade and is likely to continue to do so, if at a slower rate. Its Better Connected capital expenditure program will result in growth in revenues and earnings over the next couple of years.

Risks: As noted, like all retail businesses, CTC is exposed to factors outside its control, such as weather and government policies, but having gone through the most severe economic slowdown since WWII during the pandemic, when it was considered an essential retailer, its business model has been proven resilient. It and its affiliated CT REIT are both rated investment grade (BBB). To address the retail slowdown, CTC cut 3% of its workforce last fall (200 full time equivalent positions), taking a \$20-\$25 million charge, to save \$50 million on an annual run rate basis.

Who it's for: CTC is for investors looking for a reasonable and sustainable dividend yield from one of Canada's leading and most successful retailers, whose stock price is temporarily depressed.

Action now: Buy.

GAVIN GRAHAM'S UPDATES

Prices are as of the close of trading on March 25, 2024.

Saputo Inc. (TSX: SAP)

Type: Common stock

Current price: \$25.64

Originally recommended: Feb. 20/23 at \$36.70

Annual payout: \$0.74

Yield: 2.9%

Risk: Moderate

Website: www.saputo.com

Comments: Montreal-based Saputo is one of the top 10 dairy processors in the world, employing over 18,000 employees and with more than 60 plants worldwide. It is a leading cheese manufacturer and fluid milk and cream processor in Canada (26% of 2022-23 revenues) with brands such as Armstrong cheese and Baxter, Neilson, and Dairyland milk. In the US (47% of 2023 revenues), Saputo is one of the top three cheese producers and one

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Gavin Graham's updates – continued from page 6...

of the largest producers of extended shelf life and cultured dairy products. Australia and Argentina comprise 21% of revenues and the UK 6%. Retail accounted for 48% of 2023 revenues, foodservice 33%, and industrial (ingredients) 19%.

For the nine months ending Dec. 31, 2023, Saputo's revenues fell 4.4%, to \$12.8 billion, and net earnings dropped 63%, to \$173 million (\$0.41 per share vs. \$1.11). This was largely due to a non-cash goodwill impairment charge of \$265 million on the restructuring of its Australian dairy operations, as it merged 11 plants into six. It is also disposing of two fresh milk facilities.

Adjusted net earnings fell 3.3%, to \$498 million (\$1.18 per share vs. \$1.34 a year ago), and adjusted earnings before interest tax, depreciation and amortization (EBITDA) were essentially flat at \$1.13 billion. Net cash generated from operating activities in the third quarter rose to \$388 million from \$134 million.

Saputo's share price is down 30% over the last year as lower milk and cheese prices have hit its margins in the US and Europe, even though sales volumes were higher both in Canada and internationally. The restructuring that was in progress when the stock was recommended last year has continued, with the new cheese shred plant in Tulare, CA in start-up mode. Additionally, three facilities in Wisconsin, South Dakota, and California are being closed by the end March. And the new goat-cheese plant in Reedsburg, Wisconsin is due to open by mid-year. Meanwhile, a new cut-and-wrap facility in Wisconsin and a new packing plant in Nuneaton, UK are up and running.

The dividend was increased 2.8% in August 2023, to \$0.185 a quarter, giving an equivalent yield of 2.9%.

Action now: While Saputo's restructuring process has taken longer and cost more than anticipated, the benefits of moving into higher value-added products and a reduced cost base should be reflected in improved earnings in the next couple of years. The headwinds of lower commodity prices for cheese and milk seem to be abating. Buy now for renewed growth in revenues and earnings and modest but sustainable yield.

Stella-Jones Inc. (TSX: SJ; OTC: STLJF)

Current price: C\$78.00; US\$57.10

Originally recommended: Dec. 17/20 at C\$45.63

Annual payout: \$1.12

Yield: 1.4%

Risk: Moderate

Website: www.stella-jones.com

Comments: Montreal-based Stella-Jones is North America's leading producer of pressure-treated wood products, with 47% of 2023 revenues from sales of poles to utilities and telecommunications companies. Sales of railway ties (sleepers) accounted for 25% of 2023 sales, residential lumber 19%, logs and lumber 4%, and industrial products 5%. Stella-Jones is a major beneficiary of the US government's infrastructure investment programs, and the share price has reflected this, rising 55% in the last year. For the year to Dec. 31, Stella-Jones reported revenue of \$3.3 billion, up 8%. This was driven by 13% organic growth in infrastructure products, with annual net income of \$326 million (\$5.62 per share), up 43% from 2022. The company posted a record increase in EBITDA, up 36%, to \$608 million, equivalent to a margin of 18.3%.

Reflecting the acquisition of the utility pole businesses of Texas Electricity Cooperatives and Baldwin Pole, utility sales rose 18%, to \$1.57 billion, while railway tie sales rose 7% to \$858 million, and industrial products gained 3%, to \$148 million. Sales of residential lumber fell 14%, to \$645 million, and logs and lumber dropped 33%, to \$127 million, both seeing lower prices offset higher volumes.

CEO Eric Vachon noted the company "concluded 2023 with a marked improvement in profitability and the successful execution of investments to support the continued growth momentum in our infrastructure product categories." The company's three-year plan anticipates 15% compound annual growth in its utilities poles business between 2022-25, and low single-digit annual sales growth in railway ties. Between them they are expected to account for 75%-80% of sales. The company raised its quarterly dividend for the twentieth year, by 22%, to \$0.28 per share, giving Stella-Jones a yield equivalent to 1.4%.

Action now: Despite its strong price performance over the last 18 months, Stella-Jones remains a Buy for its exposure to infrastructure expenditure in telecommunications, utilities, and railroads, all of which are sectors with very stable demand characteristics.

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Gavin Graham's updates – continued from page 7...

Canadian Natural Resources (TSX, NYSE: CNQ)

Type: Common stock

Current price: C\$102.95; US\$75.80

Originally recommended: Nov. 9/23 at C\$87.83

Annual payout: \$4.20

Yield: 4.1%

Risk: Moderate

Website: www.cnrl.com

Comments: Canadian Natural Resources is one of the largest North American energy exploration and production companies, with long-established Alberta-based entrepreneur Murray Edwards as a major shareholder. CNQ owns well diversified production facilities in western Canada, the North Sea, and offshore Africa.

In 2023, it increased average annual production by 4% to a record 1.332 million barrels of oil equivalent (boe) daily, up 7% on a per-share basis. Meanwhile, it repurchased 40.1 million shares at an average price of \$82.86, for a total of \$3.3 billion. This was largely due to a 6% growth in oil sands mining and upgrading to a record 451,339 boe daily, a 4% increase in thermal production to a record 262,000 boe daily, and a 3% increase in gas production to a record 2,151 MMcf/d.

Net earnings for the year ended Dec. 31, were down by 25%, to \$8.2 billion (\$7.54 per share vs. \$9.64 a year earlier), due to lower oil and gas prices. CNQ paid down sufficient debt to reach its target of \$10 billion earlier than anticipated. It will now pay out 100% of free cash flow to shareholders through dividends and share buybacks. The company had adjusted funds flows of \$15.3 billion in 2023. With approximately 75% of its proved reserves being long-life and low-decline, CNQ has a total proved reserves life of 32 years.

The company raised its dividend by 5%, to \$1.05 per quarter after year end, equivalent to a yield of 4.1%. The total dividend increase in 2023 was 24%.

CNQ also pays occasional special dividends. It has raised its dividend continuously for 24 years at a compound annual growth rate of 21%. The company is splitting its stock two-for-one subject to shareholder approval at the AGM in May.

Action now: Up 15% since being added to *The Income Investor* recommended list, CNQ remains a Buy for its long-term growth prospects. The company has a capital expenditure budget of \$5.4 billion for 2024, efficient control of costs, and commitment to return 100% of its free cash flow to shareholders.

YOUR QUESTIONS

Managing a small RRIF

Q – Most of the articles I read are about building wealth. I'm suddenly at the other end of life and not sure how to manage my Canadian dividend portfolio.

I think my small (\$65k) portfolio of 22 Canadian dividend stocks is performing slightly better than the available dividend ETFs, with no management fee. The dividend distribution is certainly a little higher than the common ETFs, but it will not be enough to cover my expenses. So, at various future points I'll be faced with decisions about which holding to sell.

What criteria should I use? How do I make those "sell" decisions?

Or – and I hate to take apart what I've built –should I sell it all and put into one or two ETFs and draw them down as needed? – *Bill C.*

A – I think you have too many positions for such a small portfolio. Based on your numbers, the average size of any given holding is less than \$3,000. This means you probably spent more on commissions than necessary when building the portfolio, and it will cost you more when you sell. Fortunately, the fact it is outperforming likely offsets that.

The sell decisions should focus on retaining those stocks that are doing best, in terms of total returns. Don't focus on yield alone. Keep the stocks that have given you the best combination of dividends and capital gains. The stocks at the top of the pyramid should be the last to go. – *G.P.*