Sure Dividend International

INVESTING IN NON-U.S. HIGH-QUALITY DIVIDEND SECURITIES

May 2019 Edition

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Published on May 19th, 2019

Return to Top 10 List

Table of Contents

Opening Thoughts - Capital Allocation Outside the U.S. - **3**
Sell Recommendation: Vodafone (VOD) **4**
The International Top 10 – May 2019 ..... **5**
Analysis of Top 10 Securities **6**
Canadian Pacific Railway Ltd (CP) 6
Fresenius Medical Care AG & Co. KGaA (FMS) 8
National Bank of Canada (NTIOF) 10
Micro Focus Intl. plc (MFGP) 12
The Bank of Nova Scotia (BNS) 13
Canadian Imperial Bank of Commerce (CM) 15
Royal Bank of Canada (RY) 17
The Toronto-Dominion Bank (TD) 19
Great-West Lifeco Inc. (GWLIF) 21
Enbridge Inc. (ENB) 23
Closing Thoughts - International Stocks for the Long Run - **25**
Buying & Ranking Criteria **26**
Past Recommendations & Sells **27**
Sell Rules 27
Current Holds 27
Pending Sells 29
Sold Positions 29
Tax Guide **30**
How To Buy International Securities **32**

Opening Thoughts
- Capital Allocation Outside the U.S. -

Capital allocation is a corporate management team's most important responsibility. All of the value created (or destroyed) by a business over the long term is dependent on where its management deploys cash over time. Sadly, the people who manage many public companies are not skilled at investing money. Warren Buffett elaborated on this at length in his 1986 letter to shareholders:

"This point can be important because the heads of many companies are not skilled in capital allocation. Their inadequacy is not surprising. Most bosses rise to the top because they have excelled in an area such as marketing, production, engineering, administration or, sometimes, institutional politics.

Once they become CEOs, they face new responsibilities. They now must make capital allocation decisions, a critical job that they may have never tackled and that is not easily mastered. To stretch the point, it's as if the final step for a highly-talented musician was not to perform at Carnegie Hall but, instead, to be named Chairman of the Federal Reserve.

The lack of skill that many CEOs have at capital allocation is no small matter: After ten years on the job, a CEO whose company annually retains earnings equal to 10% of net worth will have been responsible for the deployment of more than 60% of all the capital at work in the business.

CEOs who recognize their lack of capital-allocation skills (which not all do) will often try to compensate by turning to their staffs, management consultants, or investment bankers. Charlie [Munger] and I have frequently observed the consequences of such "help." On balance, we feel it is more likely to accentuate the capital-allocation problem than to solve it.

In the end, plenty of unintelligent capital allocation takes place in corporate America. (That's why you hear so much about "restructuring.")"

Interestingly, there are meaningful differences in capital allocation around the world. The following excellent table demonstrates this.

Exhibit 1: Capital Deployment – Historical Averages for U.S., Japan, Europe, APEJ, and GEM

	Uses of Capital (As a Percentage of Sales)							Economic Returns and Growth	
	Internal					Return of Cash			
	M&A	Capex	R&D Expense	Net Working Capital	Divestitures	Dividends	Gross Buybacks	CFROI*	Real Asset Growth Rate
U.S.	10.6%	7.1%	2.2%	0.8%	3.4%	2.2%	2.3%	9.1%	5.7%
Japan	1.3%	4.6%	2.2%	1.1%	0.3%	0.7%	0.2%	3.0%	3.8%
Europe	11.4%	7.0%	2.0%	1.3%	4.2%	2.2%	0.6%	6.9%	4.2%
APEJ	12.7%	10.6%	0.8%	2.6%	5.0%	2.7%	0.4%	6.4%	9.6%
GEM	15.8%	12.0%	0.4%	3.3%	6.3%	3.2%	0.5%	6.0%	7.5%

Source: Credit Suisse; note that APEJ stands for Asia Pacific Excluding Japan and GEM stands for Global Emerging Markets.

While we could write at length about the contents of this table, the most important conclusion in the context of this newsletter is that with the exception of Japan, the other main global geographies have spent *at least* as much (typically *more*) on dividend payments when compared to their U.S. counterparts. This makes international markets an excellent place to hunt for stocks if your goal is to generate current dividend income from your investment portfolio.

Sell Recommendation: Vodafone (VOD)

We first recommended Vodafone in the October 2018 edition of The Sure Dividend International Newsletter. Since then, the security has generated total returns of -16.7% versus 3.4% for our international ETF benchmark (VEU).

Vodafone disappointed recently with the announcement that it is reducing its dividend by 40% to €0.09. This reverses an earlier statement made by the company's CFO Margherita Della Valle in a conference call just two quarters ago:

"I view our dividend as affordable at current levels. And once we deleverage back towards the lower end of the range, the board will consider returning to dividend per share growth."

Despite the statement above, Vodafone's management apparently felt that it needed to deleverage even faster by using funds that *used* to go to shareholders in the form of dividends to pay down debt.

Vodafone had €27.0 billion of net debt as of March 31st. The company generated €4.5 billion of earnings before interest and taxes (EBIT) and accrued $1.3 billion of interest expense for an interest coverage ratio of 3.5.

What really stands out about Vodafone's dividend, is its coverage by cash flows. Vodafone generated €4.4 billion of free cash flow in the last four quarters (or €5.4 billion if the company's spectrum investments are excluded, which is the convention followed by Vodafone when presenting its financial performance) while distributing €4.1 billion of equity dividends for a free cash flow dividend payout ratio of 93% (or 76% pre-spectrum).

Here's what Vodafone's Chief Executive Officer, Nick Read, said about the company's recent financial performance and dividend reduction:

"We are executing our strategy at pace and have achieved our guidance for the year, with good growth in most markets but also increased competition in Spain and Italy and headwinds in South Africa. These challenges weighed on our service revenue growth during the year, and together with high spectrum auction costs have reduced our financial headroom. The Group is at a key point of transformation – deepening customer engagement, accelerating digital transformation, radically simplifying our operations, generating better returns from our infrastructure assets and continuing to optimise our portfolio. To support these goals and to rebuild headroom, the Board has made the decision to rebase the dividend, helping us to reduce debt and delever to the low end of our target range in the next few years.

Vodafone's dividend cut is very disappointing. The company has clearly chosen to favor institutional growth over returning value to shareholders. If the $20+ billion Liberty Global deal weren't in place, perhaps the dividend reduction wouldn't have been necessary.

Due to Vodafone's dividend cut and our resulting loss of faith in the company's management, **we are issuing a pending sell recommendation on Vodafone**. We recommend selling the security when it moves from a short-term holding (less than 1 year) to a long-term holding (1+ year). We will therefore issue our final sell recommendation on or after the October 2019 edition of *The Sure Dividend International Newsletter*.

The International Top 10 – May 2019

Name and Ticker	Country	Div. Risk Score	Exp. Value Return	Dividend Yield[1]	Exp. Growth	ETR
Can. Pac. Railway (CP)	Canada	A	0.0%	1.0%	8.5%	9.5%
Fresenius Medical (FMS)	Germany	B	3.7%	1.2%	6.0%	10.9%
National Bank (NTIOF)	Canada	B	0.6%	3.5%	6.0%	10.1%
Micro Focus (MFGP)	U.K.	C	7.4%	4.7%	8.0%	20.1%
Scotiabank (BNS)	Canada	C	4.8%	4.2%	8.0%	17.0%
CIBC (CM)	Canada	C	3.8%	4.3%	5.5%	13.6%
Royal Bank of Can. (RY)	Canada	C	0.9%	3.4%	8.0%	12.3%
Toronto-Dominion (TD)	Canada	C	1.0%	3.4%	7.0%	12.0%
Great-West Life (GWLIF)	Canada	C	3.0%	4.5%	4.0%	11.5%
Enbridge (ENB)	Canada	C	-0.4%	5.1%	7.2%	11.9%

Notes: *Data for the table above is primarily from The Sure Analysis Research Database and analysis in this newsletter. 'Exp. Value Return' means expected returns from valuation changes annually. 'Exp. Growth' means expected annualized growth rate over the next 5 years. 'ETR' stands for expected total returns and is the sum of the preceding three columns. Data in the table above might be slightly different than individual company analysis pages due to writing the company reports throughout the week.*
Disclosure: *Nick McCullum is personally long the following from this month's Top 10: BNS, RY, TD, and ENB.*

There are four new securities in this month's Top 10 compared to last month's edition. Imperial Oil (IMO), Novartis (NVS), SAP (SAP), and Total (TOT) were replaced by the Royal Bank of Canada (RY), The Toronto-Dominion Bank (TD), Great-West Life (GWLIF), and Enbridge (ENB).

An equally weighted portfolio of the Top 10 has the following characteristics:

Dividend Yield:	3.5%	**Expected Valuation Return:**	2.5%
Growth Rate:	6.8%	**Expected Total Return:**	12.9%

The securities in the *Sure Dividend International Newsletter* have a mix of above-average dividend yields, about average growth prospects, strong safety scores, and they are undervalued. In short, these tend to be securities that are shareholder friendly, conservative, and underappreciated.

Note: We are only recommending securities with U.S. American Depositary Receipts (ADRs) and reasonable liquidity for easier purchasing. ADRs are publicly traded securities issued by a bank. The issuing bank holds shares of the underlying foreign security. Each ADR gives the holder rights to a specific portion of shares of the underlying foreign security held at the bank.

Note: Data in this newsletter is primarily from May 15th through May 17th, 2019.

[1] After accounting for any applicable withholding taxes.

Analysis of Top 10 Securities

Canadian Pacific Railway Ltd (CP)

Overview & Current Events

Canadian Pacific Railway is a railroad company that operates ~14,000 miles of railways in Canada and the U.S. It is one of two class 1 railroads in Canada (Canadian National Railway being the other). The company was founded in 1881, is headquartered in Calgary, Alberta, Canada and currently trades at a market capitalization of US$32 billion.

In late April (4/23/19) Canadian Pacific reported its first-quarter earnings results. Revenue of C$1.77 billion (roughly US$1.32 billion) increased by 6% year-over-year. This was a solid performance, especially since harsh weather conditions during the quarter led to a number of outages. Operating ratio (expenses relative to revenues) was 69.3% during the first quarter, an increase of 180 basis points versus the same quarter from the prior year. Net earnings increased by 25% to US$322.7 million. However, adjusted diluted earnings-per-share (EPS) of US$2.07 were up only 3% over the same quarter in 2018. Share repurchases helped boost earnings-per-share. Canadian Pacific reduced its diluted average share count by 3% in the first quarter.

Fortunately, the company believes the headwinds seen in the first quarter are non-recurring, and conditions are likely to normalize over the course of the year. Canadian Pacific continues to forecast mid-single-digit volume growth and 10%+ adjusted diluted earnings-per-share growth for 2019.

Growth, Competitive Advantages, and Total Returns

The most important growth catalyst for Canadian Pacific is continued economic growth in North America. As a major transport, Canadian Pacific is closely tied to broader economic conditions. Since GDP growth remains positive, the environment remains supportive of growth for the company. We believe the company is capable of growing its earnings-per-share at around 8.5% per year.

Canadian Pacific benefits from operating in an oligopoly with tremendous barriers to entry. Canadian Pacific has compounded its earnings-per-share at ~17% per year over the last decade. With that said, the company's growth is highly dependent on continued economic expansion.

We expect Canadian Pacific Railway to generate earnings-per-share of ~$11.97 in fiscal 2019. Using this estimate, the company is trading at a forward price-to-earnings ratio of 19.0. This is exactly in-line with our fair value estimate for the stock. As a result, valuation changes are not expected to have an impact on shareholder returns at this price level. That said, earnings growth and dividends will generate meaningful returns for investors. In addition to 8.5% expected EPS growth, Canadian Pacific recently increased its quarterly dividend by 27.5%, to US$0.62 per share. The new annualized dividend payout of $2.48 per share provides a dividend yield of 1.0%. As a result, total returns are expected to reach 9.5% per year over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	1.0%[1]
Headquarters City:	Calgary	**Dividend History:**	Steady or rising since 2001
Headquarters Country:	Canada	**10-Year Average P/E:**	19.0
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	19.0
Year Founded:	1881	**Market Capitalization:**	US$32 billion

[1] Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 1.1%.

Return to Top 10 List

Return to Top 10 List

Fresenius Medical Care AG & Co. KGaA (FMS)

Overview & Current Events

Fresenius Medical Care operates in the healthcare sector and is based in Germany. The company goes back to 1912, when Dr. Eduard Fresenius began the production of pharmaceuticals at the Hirsch Pharmacy. Today, the company primarily focuses on kidney-related diseases. Its products include dialysis machines, dialyzers and related disposables. Fresenius has a stock market capitalization of approximately US$24.5 billion.

In late February (2/20/19) Fresenius Medical released fourth-quarter and full-year financial results. Comparable revenue grew 7% on both a reported and constant currency basis. Currency exchange was not a meaningful factor for the fourth quarter. Operating income increased 42% while adjusted net income increased 13% versus the same quarter the previous year. In 2018, revenue declined 1% on a reported basis, but increased 4% excluding the impact of currency. Operating income and net income increased by 3% and 11%, respectively. Fresenius also announced a share buyback for 1 billion euros (approximately US$1.12 billion) over the next two years, which will help boost EPS growth.

Growth, Competitive Advantages, and Total Returns

Fresenius should continue to generate growth over the long-term, because of its operational focus. According to the company, approximately 3.2 million people around the world undergo regular dialysis treatment. This figure is only expected to rise in the years ahead. Fresenius estimates the number of dialysis patients will grow to 4.9 million by 2025. This presents a fundamental tailwind for the company. In addition, Fresenius is seeking growth in new channels, specifically at-home care. Fresenius recently completed its $2 billion acquisition of NxStage Medical, which specializes in at-home dialysis equipment and related products. NxStage expects to generate revenue of approximately US$270 million to US$292 million in 2019, and up to US$371 million in 2020. We believe annual earnings growth of 6% is achievable for Fresenius, thanks to the company's strong industry position. Fresenius' primary competitive advantage is the dominance it has established in its core niche of kidney-related illness. Fresenius has over 3,700 dialysis centers, and decades of experience in dialysis.

We expect Fresenius will generate earnings-per-ADR of US$2.66 for fiscal 2019. Based on this, the stock has a price-to-earnings ratio of 15.0. Our fair value estimate is a price-to-earnings ratio of 18.0, equal to a fair value share price of US$48. As a result, the stock appears to be significantly undervalued. An expanding stock valuation could boost annual shareholder returns by 3.7% per year, as will the company's earnings growth and dividends. We expect Fresenius to generate 6.0% annual earnings growth, and the stock also has a 1.2% dividend yield. While this is not an extremely high yield, the company is committed to paying a rising dividend. Fresenius has paid rising dividends in its home currency for 22 consecutive years. The combination of valuation changes, earnings growth, and dividends results in expected returns of 10.9% per year for Fresenius stock over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Euro	**Dividend Yield:**	1.2%[1]
Headquarters City:	Bad Homburg	**Dividend History**:	Increasing for 22 years
Headquarters Country:	Germany	**10-Year Average P/E:**	19.5
Stock Exchange:	DAX & NYSE	**Price-to-Earnings Ratio:**	15.0
Year Founded:	1912	**Market Capitalization:**	US$24.5 billion

[1] Germany imposes a 26% withholding tax. Excluding this withholding tax, the dividend yield would be 1.6%.

Return to Top 10 List

Return to Top 10 List

National Bank of Canada (NTIOF)

Overview & Current Events

National Bank of Canada is the sixth-largest bank in Canada, behind The Big 5 Canadian Banks. National Bank's historical roots go as far back as 1859. The company is headquartered in Montreal, Quebec, Canada and trades with a market capitalization of $15.8 billion.

National Bank reported its fiscal first-quarter results in late February (2/27/19). Earnings-per-share rose 3% for the quarter (compared to the same period in fiscal 2018) and 10% in fiscal 2018. The bank reported stable overall results despite challenging markets. Specifically, year-over-year net income of the Personal and Commercial segment rose 7% to C$246 million, Wealth Management rose 10% to C$125 million, U.S. Specialty Finance and International rose 20% to C$60 million, but the Financial Markets segment fell 17% to C$170 million. The Financial Markets segment was impacted by lower investment banking revenues and lower gains on investments. National Bank's efficiency ratio was 42.7% for Q1, 3.9% higher than in the first quarter of 2018. Return on equity was 17.2% for Q1 versus 18.5% for full fiscal 2018. The bank's common equity tier 1 ratio was 11.5% at the end of Q1, which aligns with 2018's and is more than adequate. Net impaired loans came in at 0.3%, in line with the comparable year-ago figure. In summary, National Bank's Q1 earnings indicate stability. We maintain our estimate of C$6.30 in earnings-per-share for fiscal 2019.

Growth, Competitive Advantages, and Total Returns

National Bank of Canada's growth prospects are not as robust as its larger peers within the Canadian banking industry. The main reason for this is because of its lack of exposure to international markets. In the most recent fiscal year, National Bank generated just 9.2% of its net income from its "U.S. Specialty Finance and International Segment." For context, Canadian Imperial Bank of Commerce – the other Canadian bank that arguably has the second-weakest international exposure – generated 14.2% of its net income from its U.S. Commercial Banking and Wealth Management segment in the most recent quarter, while The Toronto-Dominion Bank generated 39% of its net income from the U.S. last quarter. We would be delighted to see National Bank pursue a more aggressive international growth strategy moving forward, but today the bank's prospects are weaker than its peers.

We believe the National Bank of Canada is likely to generate earnings-per-share of around C$6.30 in fiscal 2019, which is equivalent to US$4.72 at prevailing exchange rates. The company's U.S.-listed shares currently trade at $46.76 per share, for a price-to-earnings ratio of 10.0. For context, National Bank's 10-year average price-to-earnings ratio is 10.3, which is our fair value target for National Bank. If National Bank's valuation multiple expands to its 10-year average over the next five years, this will boost its total returns by a modest 0.6% per year during this time period. Separately, the bank appears capable of delivering earnings growth of around 6% per year, and it trades with a current yield of 3.5%. National Bank seems capable of returning 10.1% per year over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	3.5%[1]
Headquarters City:	Montreal	**Dividend History**:	Steady or rising since 1993
Headquarters Country:	Canada	**10-Year Average P/E:**	10.3
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	10.0
Year Founded:	1859	**Market Capitalization:**	US$15.8 billion

[1]Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 4.1%.

Return to Top 10 List

Return to Top 10 List

Micro Focus Intl. plc (MFGP)

Overview & Current Events

Micro Focus International is a global enterprise software corporation. The company's products include IT infrastructure and enterprise applications. Micro Focus International's operating segments include Security, IT Operations Management, Application Delivery Management, Information Management & Governance, and Application Modernization & Connectivity. Micro Focus is based in the U.K. The ADRs have traded on the New York Stock Exchange since 2017.

In mid-February (2/14/19) Micro Focus International reported new financial results. For the previous 12 months, pro-forma revenue declined 5.3%, better than expected as the company's guidance called for a 6% to 9% decline. Adjusted EBITDA grew 9.2% to $1.5 billion, as the EBITDA margin improved to 37.7% from 31.8% in the (7/11/18) mid-year report. The company also repurchased $400 million worth of stock in 2018 and added another $110 million to its repurchase authorization. In fiscal 2018, earnings-per-share increased 6.2% to US$1.87.

For 2019, Micro Focus International expects constant currency revenue to decline 4% to 6%. Fortunately, Micro Focus expects the revenue decline to stabilize by 2020, while adjusted EBITDA margins are expected to expand to the mid-40% range, more than offsetting revenue declines.

Growth, Competitive Advantage, and Total Returns

Micro Focus International has a positive long-term growth outlook. It has an established presence in high demand technology platforms, including artificial intelligence, IT management, security, and data analytics. Also, as Micro Focus noted in its most recent interim financial release, 70% of company revenue is now recurring, which provides it with the ability to invest recurring cash flows into growth opportunities. Micro Focus International acquired HPE Software to accelerate its growth in new areas. This made Micro Focus International one of the largest dedicated software companies in the world. The company grew earnings-per-share by 19% per year over the past decade, and we expect 8% annual earnings growth for Micro Focus International over the next five years.

Micro Focus International generated adjusted earnings-per-share of US$1.87 in fiscal 2018. We expect the company to achieve fiscal 2019 earnings-per-share of about US$2.32. Using this estimate, the company is trading at a price-to-earnings ratio of just 10.5; significantly below our fair value estimate of 15. This indicates the stock is deeply undervalued. An expanding valuation multiple could add 7.4% to the annual shareholder returns moving forward. Separately, Micro Focus International has a 4.7% dividend yield, which is not subject to any withholding tax. Lastly, expected earnings growth of approximately 8% per year will add to shareholder returns. All said, Micro Focus International could generate annual returns of 20.1% over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	U.S. Dollar	**Dividend Yield:**	4.7%[1]
Headquarters City:	Newbury	**Dividend History**:	Increasing since 2006
Headquarters Country:	United Kingdom	**10-Year Average P/E:**	14.7
Stock Exchange:	LSE & NYSE	**Price-to-Earnings Ratio:**	10.5
Year Founded:	1976	**Market Capitalization:**	US$8.2 billion

Note: Due to Micro Focus' short history as an ADR, we do not have a dividend yield history for this security.

[1] There is no withholding tax on dividends received from companies headquartered in the U.K.

Return to Top 10 List

The Bank of Nova Scotia (BNS)

Overview & Current Events

The Bank of Nova Scotia - often referred to as Scotiabank - is Canada's third-largest financial institution behind the Royal Bank of Canada (RY) and The Toronto-Dominion Bank (TD). The company operates in three business units: Canadian Banking (49% of 2018's net income), International Banking (31%), and Global Banking and Markets (20%).

Scotiabank reported Q1 results on 2/26/19. The report was in line with our expectations. Adjusted earnings-per-share came in at C$1.75 against C$1.87 in the same year-ago period, a decline of 6%. However, last year's number included a C$0.12 cent benefit thanks to a revaluation of the company's benefit plan. On a comparable basis, earnings-per-share were about flat.

Operationally, Scotiabank's results looked much better. Total revenue was up 7.3% thanks to an 8.6% gain in interest income and a 5.6% boost in noninterest income. The international business led the way in terms of growth in Q1, but Scotiabank continues to perform well across the board. The bank's provisions for credit losses soared 26% in Q1 but that was due to foreign currency translation as well as from growth in the loan portfolio. This spike higher in provisions is to be expected given that Scotiabank is growing its loan book both organically and via acquisitions, but it does reduce earnings in the period. Noninterest expense also crimped earnings during the quarter as that line item rose 19% year-over-year. This was due to the integration expense of the bank's recent mergers, including BBVA Chile, MD Financial Management, and Jarislowsky Fraser Ltd.

Growth, Competitive Advantages, and Total Returns

Scotiabank has two catalysts that should drive its growth for the foreseeable future. The first is expansion into international markets. Scotiabank has been entering markets within Latin America, where it can use its size and capital strength to acquire smaller players and consolidate the industry. Early results have been very promising. In the most recent quarter, the International Banking segment generated revenue growth of 22% and adjusted net income growth of 16% while operating with a net interest margin of 4.52% (compared to 2.45% for the Canadian Banking unit). While international banking markets come with higher risks of losses, currency exposure, geopolitical risk, and a host of other issues; the margins that these markets can provide are well in excess of established markets.

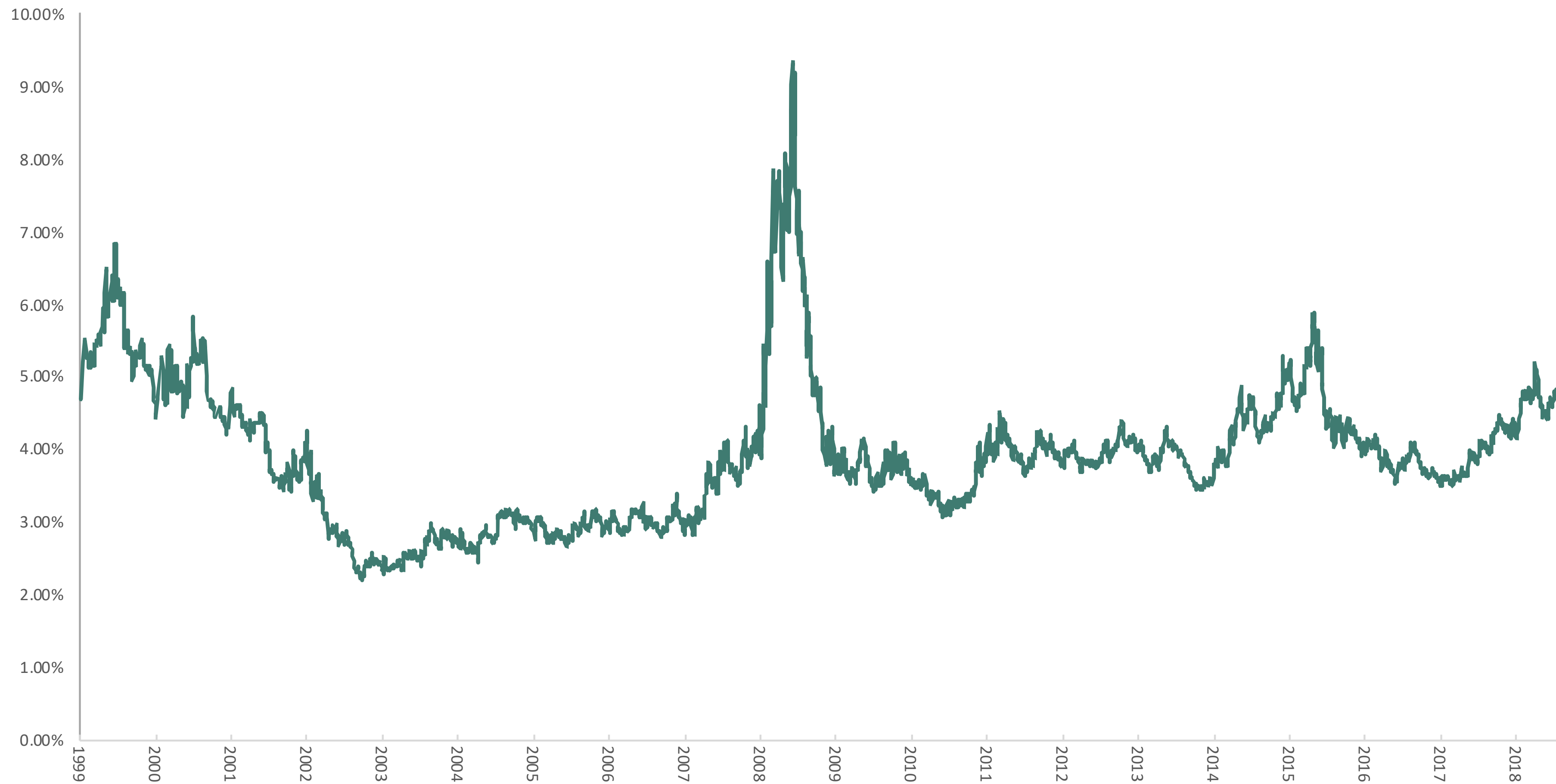
Scotiabank does not provide earnings-per-share guidance, but we believe it is likely to deliver 2019 earnings-per-share of about US$5.59, or C$7.45. Using this earnings estimate, Scotiabank's NYSE-listed shares are trading at a price-to-earnings ratio of 9.5 today. Our fair value estimate for the company is a price-to-earnings ratio of 12. If Scotiabank's price-to-earnings ratio expands to 12 over the next five years, this will add 4.8% to its annualized returns. Between dividend payments (4.2%), earnings growth (8%), and valuation expansion (4.8%), we believe that Scotiabank has the potential to deliver annualized returns of 17% moving forward.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	4.2%[1]
Headquarters City:	Toronto	**Dividend History:**	35 increases in last 40 years
Headquarters Country:	Canada	**10-Year Average P/E:**	11.5
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	9.5
Year Founded:	1832	**Market Capitalization:**	US$65 billion

[1]Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 4.9%.

Return to Top 10 List



Return to Top 10 List

Canadian Imperial Bank of Commerce (CM)

Overview & Current Events

The Canadian Imperial Bank of Commerce – hereafter CIBC – is the fifth-largest financial institution in Canada. The company trades on the New York Stock Exchange with a market capitalization of US$37 billion and is also listed in Toronto on the TSX with a market capitalization of C$49 billion. CIBC expanded its presence into the United States with the US$5.0 billion, June 2017 acquisition of the publicly traded Chicago-based PrivateBancorp, which operated as The Private Bank.

CIBC reported its first-quarter fiscal 2019 earnings results on February 28. The company announced that it generated revenues of US$3.46 billion, which was 2.7% more than the revenues the bank generated during the previous year's quarter. CIBC was able to grow its loan portfolio in its Personal and Small Business Banking segment marginally, while deposits rose by 5% year-over-year. Net interest margin expanded 7bps from 2.35% to 2.42%, which allowed for higher net interest income. CIBC's Commercial Banking Loan portfolio and its U.S. Loan portfolio grew at a faster pace, although from a lower base compared to the Personal and Small Business Banking segment. CIBC was also able to lower its operating expenses versus the prior year's quarter, which allowed for an 8% operating earnings growth rate. Higher provisions for credit losses offset this growth, though, which is why earnings-per-share were down to US$2.29 for the quarter. In addition to announcing first quarter financial results, CIBC increased its dividend by 2.9%, to US$1.06.

Growth, Competitive Advantages, and Total Returns

CIBC's future growth will be driven by its expansion into the United States banking market. While the financial institution was the slowest among the Canadian Big 5 to expand internationally, the aforementioned US$5.0 billion acquisition of PrivateBancorp – which still operates as The PrivateBank – gives the company a foothold in the critically important U.S. economy.

We see CIBC generating earnings-per-share of about US$9.48 in fiscal 2019. The bank's NYSE-listed shares (CM) currently trade at about $82, which implies a price-to-earnings ratio of 8.7 – lower than most banks in either the United States or Canada. Our fair value target for CIBC is a price-to-earnings ratio of 10.5. If the bank's price-to-earnings ratio were to expand to 10.5 over the next five years, this would bolster the stock's annualized returns by 3.8% per year.

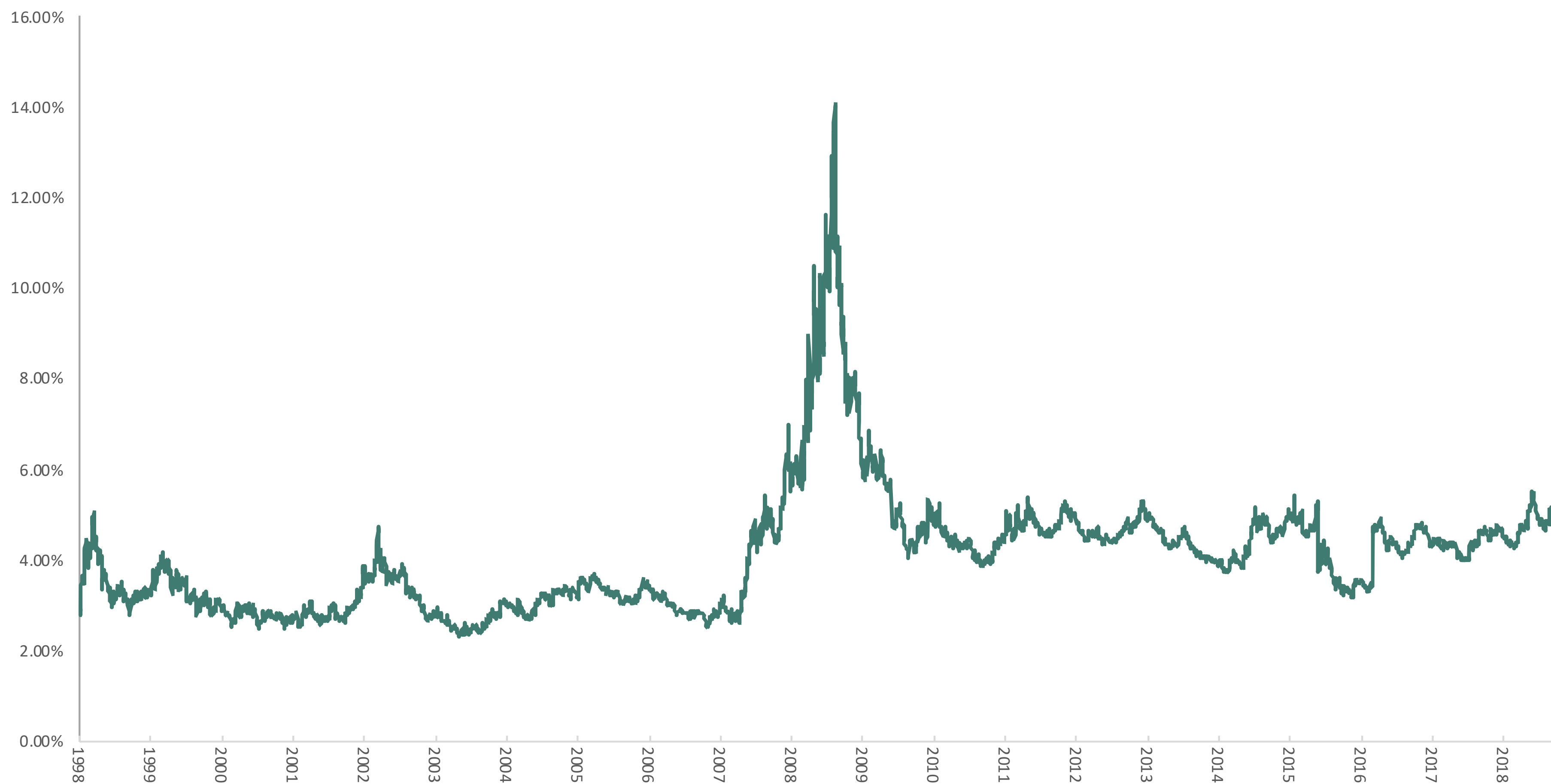
CIBC has compounded its adjusted earnings-per-share at 15.6% per year over the last decade, and 9.1% per year over the last 5 years. We see the bank as capable of delivering 5.5% earnings-per-share growth moving forward. Combining this 5.5% growth estimate with CIBC's current yield of 4.3% (after a 15% foreign investor withholding tax, outside of a U.S. retirement account) and factoring in the potential for valuation expansion (3.8%), we believe that CIBC is capable of delivering annualized returns in excess of 13% per year moving forward.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	4.3%[1]
Headquarters City:	Toronto	**Dividend History**:	Steady or rising since 1868
Headquarters Country:	Canada	**10-Year Average P/E:**	10.5
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	8.7
Year Founded:	1867	**Market Capitalization:**	US$36 billion

[1]Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 5.1%.

Return to Top 10 List



Return to Top 10 List

Royal Bank of Canada (RY)

Overview & Current Events

The Royal Bank of Canada – hereafter RBC – is the largest bank in Canada by market capitalization, and the country's second-largest bank by total assets, behind The Toronto-Dominion Bank (TD). The financial institution operates in five business units: Personal & Commercial Banking, Wealth Management, Insurance, Investor & Treasury Services, and Capital Markets.

In late February, RBC reported (2/21/19) strong first-quarter financial results. Earnings-per-share rose 7% against the year-ago period thanks to a 5% increase in net income and a small decline in the share count. Revenue was up 7% against the same period last year, but some of that growth was offset by higher expenses. Provisions for credit losses moved materially higher, gaining 54% in Q1 as one Capital Markets account in the utilities sector caused RBC to record a sizable provision. However, this should be a one-time event. Non-interest expense rose only 5% in Q1, meaning the bank gained some margin efficiency on lower operating expenses. This helped offset some weakness in the Capital Markets business and helped drive earnings higher. Net interest margin was down from 1.65% to 1.62% in Q1, which is a low value compared to its peers in the Canadian banking sector. However, RBC's mix of business is not like a typical bank in that it derives about half of its income from nontraditional banking activities. Return on equity fell 70bps to 16.7% year-over-year, but this was due to a much higher equity total in this year's Q1 against the comparable period. RBC's profitability did not move materially, so again, there is no cause for concern.

Growth, Competitive Advantage, and Total Returns

RBC's future growth will come from continued expansion into the U.S. banking market. The company's largest penetration into this arena came with the 2015 purchase of Los Angeles-based City National Corporation, for which the bank paid US$5.0 billion. In fiscal 2018, 23% of RBC's revenue was generated from the U.S. We believe RBC is capable of growing its earnings-per-share at 8% per year over full economic cycles.

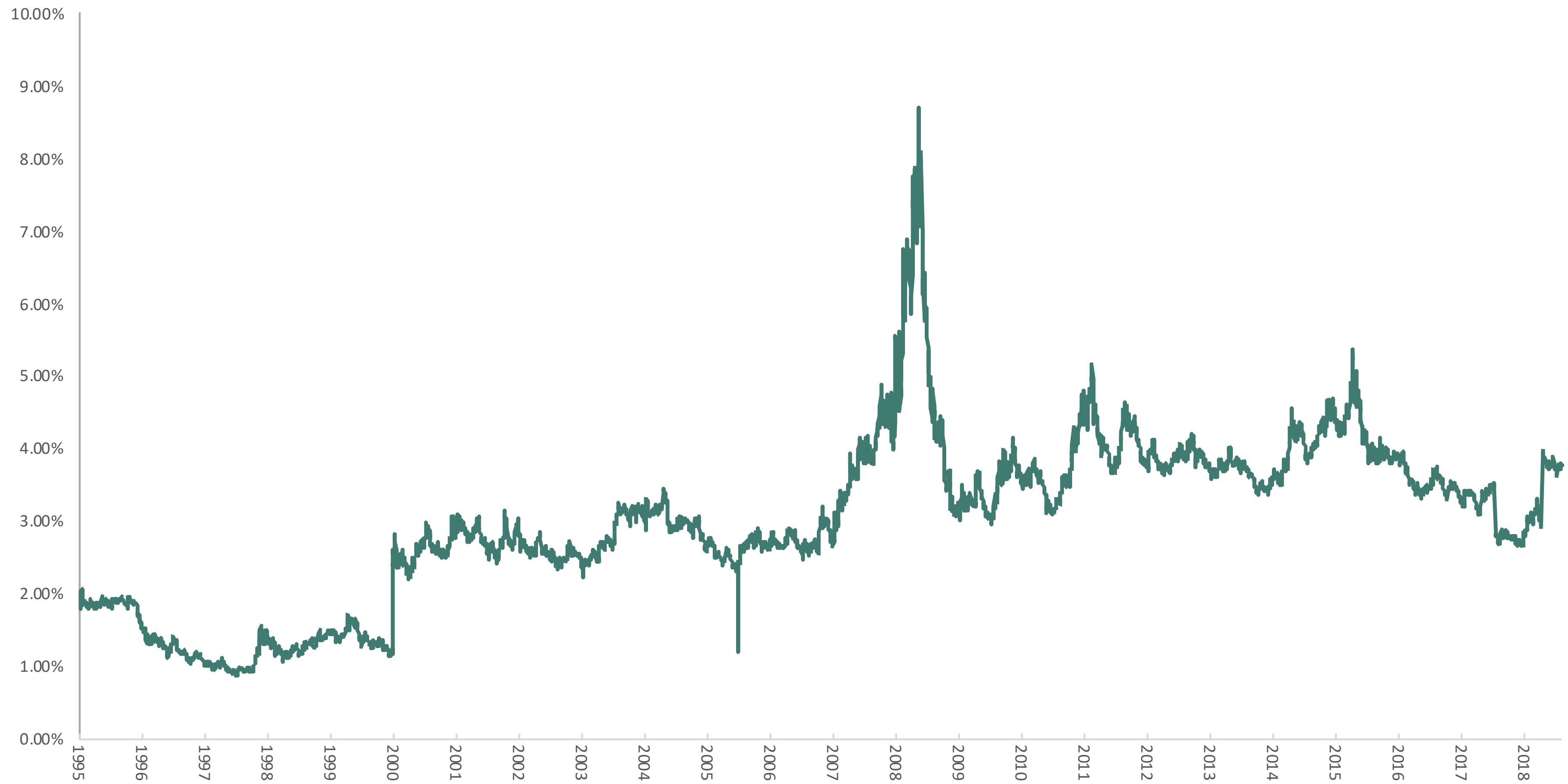
We expect RBC to generate earnings-per-share of around C$9.00 in fiscal 2019, which is equivalent to US$6.75. The company's NYSE-listed shares currently trade around $78, which implies a price-to-earnings ratio of 11.5. As the largest among the Canadian Banks, the Royal Bank of Canada has historically traded at a premium valuation relative to its peers. The company's 10-year average price-to-earnings ratio is 12.6 and our fair value target is an earnings multiple of 12. If RBC's price-to-earnings ratio expands to 12 over the next five years, this will boost its total returns by 0.9% per year. Combine this potential for valuation expansion with RBC's growth potential (8.0%) and dividend yield (3.4%) and RBC appears capable of delivering total returns of 12.3% per year moving forward.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	3.4%[1]
Headquarters City:	Toronto	**Dividend History**:	8 years of increases[2]
Headquarters Country:	Canada	**10-Year Average P/E:**	12.6
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	11.5
Year Founded:	1864	**Market Capitalization:**	US$112.0 billion

[1] Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 4.0%.
[2] Although RBC (RY) has only increased its dividend for eight *consecutive* years, the company has paid *steady or rising* dividends for decades.

Return to Top 10 List



Return to Top 10 List

The Toronto-Dominion Bank (TD)

Overview & Current Events

Toronto-Dominion Bank began its life as the Bank of Toronto in 1855. Since then, the institution has grown into a global financial services provider with over 85,000 employees and more than C$1.3 trillion in assets. Toronto-Dominion Bank produces around C$40 billion in revenue each year and the stock has a C$136 billion market capitalization. Toronto-Dominion reports results in Canadian dollars.

The bank reported Q1 earnings in late February and results were largely in line with expectations. Adjusted diluted earnings-per-share rose fractionally, increasing one penny to $1.57 from the year-ago period. The Canadian Retail segment saw adjusted net income rise 6% on an 8% increase in revenue. The U.S. Retail business posted a 9% gain in adjusted net income as the segment saw higher loan balances, higher deposits, and better interest margins. The Wholesale segment posted a small loss against a nearly $300 million profit in the comparable period thanks largely to lower trading revenue.

Total revenue rose 6.6% in Q1 while provisions for credit losses rose 23%, insurance claims were up 22%, and adjusted noninterest expenses were up 7.7%. This combination of factors led to essentially flat earnings year-over-year, but we do not see this relative weakness as continuing. Most of the weakness in Q1 was due to exceptional volatility in asset markets late in 2018, which should not reoccur on a regular basis. The Banking segments for Toronto-Dominion performed very well.

Growth, Competitive Advantage & Total Returns

We see Toronto-Dominion producing 7% annual earnings growth in the coming years, continuing the strong history the bank has produced when it comes to growth. Growth should accrue in part from low single-digit revenue growth, the product of steady loan growth. Toronto-Dominion continues to gather cheap deposits and lend them prudently, which should drive more strong performance moving forward.

In addition, we see some margin expansion as revenue rises via lower expenses, although this was not the case in Q1. Finally, the bank should see a low single-digit tailwind from a lower share count as it continues to buy back a small amount of its own stock.

Of course, Toronto-Dominion is susceptible to recessions in both the U.S. and Canada; and would likely see growth halted or reversed. To its credit, Toronto-Dominion's earnings-per-share did not decline during the financial crisis. While earnings were essentially flat for three years, they did not decline, which is quite a feat for a bank. For this reason, we view Toronto-Dominion as favorable against its peers, many of which suffered severe declines in earnings during the last recession.

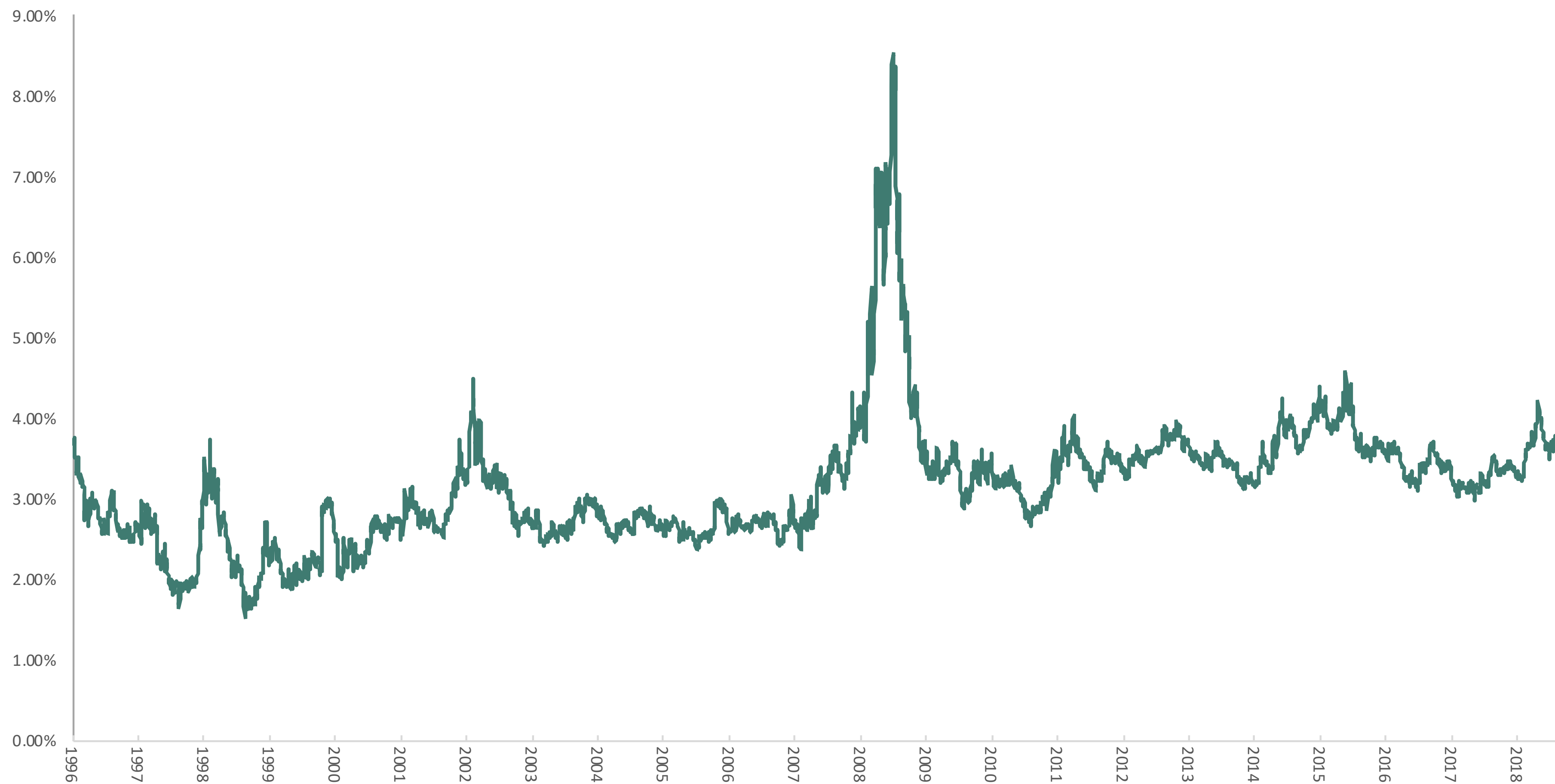
We expect total returns to be almost 12% annually in the coming years, consisting of the 3.4% dividend yield, 7% earnings-per-share growth, and ~1% tailwind from the valuation moving higher. At 11.5 times this year's earnings estimates, the stock appears slightly undervalued when compared to our fair value estimate of 12 times earnings. Given its strong performance during the last recession, a strong history of growth, the 3.4% dividend yield, and the reasonable share price; we rate the stock as a buy.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	3.4%[1]
Headquarters City:	Toronto	**Dividend History**:	8 years of increases
Headquarters Country:	Canada	**10-Year Average P/E:**	12.7
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	11.5
Year Founded:	1855	**Market Capitalization:**	US$101.4 billion

[1] Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors in a retirement account. Excluding the withholding tax, the dividend yield would be 4.0%.

Return to Top 10 List



Return to Top 10 List

Great-West Lifeco Inc. (GWLIF)

Overview & Current Events

Great-West Lifeco is an international financial services holding company. The company operates in life insurance, health insurance, investment and retirement, asset management, and reinsurance. The stock is dual-listed in Toronto and New York, under tickers GWO and GWLIF, respectively. The company was founded in 1891 and has a current market capitalization of US$21.8 billion on the U.S.-listed shares following a period of recent weakness. Great-West reports in Canadian dollars.

The company announced Q1 earnings on 5/3/19 and results were much weaker than expected. Earnings-per-share came in at C$0.67, missing analyst estimates of C$0.77, and down from the year-ago period earnings of C$0.74 per share. Earnings declined primarily due to higher income taxes as Great-West's tax rate nearly doubled from 10% to 18% year-over-year. In addition, lower fee income in North America, as well as unfavorable claims in Europe helped drive the decline.

The company's capital position remains strong despite weak Q1 earnings, and Great-West was able to retire $2 billion of its own shares recently.

We are maintaining the expectation of C$3 in earnings-per-share for this year after a somewhat messy Q1 report, which would be essentially flat when compared to last year.

Growth, Competitive Advantage & Total Returns

Great-West has faced some challenges in producing meaningful growth in recent years as low interest rates have taken their toll. Indeed, like any other insurer, Great-West's fixed-rate annuity and insurance businesses rely upon carry income for revenue and margins, so when rates are low – or when the yield curve contracts, as it has recently – entities like Great-West can face difficulties.

Given this, we think the company will have a somewhat difficult time producing growth (outside of share repurchases) in the coming years. We see 4% earnings growth annually in the next five years, with mergers and acquisitions continuing to play a pivotal role in achieving that. Great-West's strong capital position will help, whether it chooses to buy its own shares or purchase growth elsewhere.

Great-West's competitive advantage is its unadventurous and conservative approach to its businesses. In periods of economic uncertainty, the company's strong capital position and strong dividend will appeal to investors. Indeed, insurance companies typically are defensive stocks in a recession as their earnings are beholden to claims, not necessarily economic growth.

We expect total returns for Great-West to be in the area of 12% annually in the coming years, consisting of the 4.5% dividend yield, 4% earnings-per-share growth, and a 3% tailwind from the valuation moving higher. At just over 10 times this year's earnings estimates, the stock appears meaningfully undervalued when compared to our fair value estimate of 12 times earnings. Likewise, shares trade at just ~1.4 times book value against its longer-term average closer to 1.8 times book value.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	4.5%[1]
Headquarters City:	Winnipeg	**Dividend History**:	4 years of increases
Headquarters Country:	Canada	**10-Year Average P/E:**	10.4
Stock Exchange:	TSX & NYSE	**Price-to-Earnings Ratio:**	13.8
Year Founded:	1891	**Market Capitalization:**	US$21.4 billion

[1] Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors in a retirement account. Excluding the withholding tax, the dividend yield would be 5.3%.

Return to Top 10 List

Return to Top 10 List

Enbridge Inc. (ENB)

Overview & Current Events

Enbridge is an oil and gas transportation company headquartered in Canada. It transports over 25% of the crude oil produced in North America, and approximately 18% of the natural gas consumed in the United States. In all, it has an ownership stake in approximately 193,000 miles of natural gas and NGL pipelines across North America and the Gulf of Mexico. Its natural gas assets have 11.4 billion cubic feet per day of processing capacity, 307 thousand barrels per day of NGL production, and 438 billion cubic feet of net natural gas storage capacity. Enbridge also provides renewable power generation, with over 1,700 megawatts of net renewable generation and transmission capacity.

Enbridge reported another record quarter that exceeded consensus' expectations. The company grew adjusted EBITDA in Q1 to C$3.8 billion, up 11.8% year-over-year. Distributable cash flow (DCF) also grew rapidly to C$2.8 billion from C$2.3 billion year-over-year, for a 21.7% growth rate. These impressive results were caused by a higher throughput on the Mainline system as well as the downstream pipelines. Additionally, contributions from new gas transmission projects, favorable weather patterns, and increasing crude oil and natural gas differentials boosted results further. The company continues to forecast strong cash flow, DCF, and dividend growth over the next several years.

Growth, Competitive Advantage, and Total Returns

Investment in new projects will fuel Enbridge's future growth. Enbridge expects to spend up to US$17 billion in growth projects through 2020, including US$8 billion placed into service in 2018. The company also acquired Spectra Energy in 2016 for US$28 billion to significantly expand its footprint. Enbridge reiterated DCF per share guidance to US$3.35 for 2019 and US$3.77 for 2020, respectively.

Enbridge's primary competitive advantage is its strong business model. It has an extensive and diversified network of assets. Approximately 96% of its cash flow is derived from long-term, take-or-pay contracts. Furthermore, 93% of revenue is derived from customers with an investment-grade credit rating. Another competitive advantage is its strong financial position. The company has a credit rating of BBB+ and Baa3 from Standard & Poor's and Moody's, respectively, with stable outlooks from both ratings agencies.

We expect Enbridge to generate DCF-per-share of US$3.35 for 2019. Based on this, the stock has a price-to-DCF ratio of 11.2. Our fair value estimate is a price-to-cash flow ratio of 11. Contraction of the valuation multiple could subtract 0.4% from Enbridge's annual shareholder returns. In addition, Enbridge currently offers an annual dividend payout of US$2.22, which equals an after-tax dividend yield of 5.1%. Enbridge is a strong dividend growth stock and expects to increase the dividend by 10% annually through 2020. Assuming 7.2% annual earnings growth, the 5.1% dividend yield, and a 0.4% annual headwind from valuation changes, we expect annual returns of 11.9% over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	**Dividend Yield:**	5.1%[1]
Headquarters City:	Calgary	**Dividend History**:	22 years of increases
Headquarters Country:	Canada	**10-Year Average P/DCF:**	12.3
Stock Exchange:	TSX & NYSE	**Price-to-DCF Ratio:**	11.2
Year Founded:	1949	**Market Capitalization:**	US$75.7 billion

[1] Canada imposes a 15% dividend withholding tax. However, the withholding tax is waived for U.S. investors who hold the stock in a qualified retirement account, such as a 401(k) or IRA. Excluding the withholding tax, the dividend yield would be 5.9%.

Return to Top 10 List

Return to Top 10 List

Closing Thoughts

- International Stocks for the Long Run -

One of the noted downsides of investing in international stocks is their heightened volatility. Case-in-point: the MSCI World Ex-US Index has a since-inception annualized price standard deviation of 16.9% while the S&P 500 has a since-inception price standard deviation of 15.4%.

What this means for investors is that holding only international stocks will make your portfolio value fluctuate more than investing solely in the U.S. Of course, the ideal portfolio will be globally diversified, but this still may cause concern for some investors.

Fortunately, the probability of experiencing bad outcomes while investing is greatly reduced the longer you plan to invest for. This holds both domestically and internationally. In the tables below, the probability of achieving positive and negative outcomes are presented for various international stock market indices.

MSCI World Ex-US: 1970-2018

Time Frame	Positive	Negative
Quarterly	69%	31%
One Year	70%	30%
5 Years	89%	11%
10 Years	100%	0%
20 Years	100%	0%

MSCI Europe: 1970-2018

Time Frame	Positive	Negative
Quarterly	64%	36%
One Year	71%	29%
5 Years	94%	6%
10 Years	99%	1%
20 Years	100%	0%

MSCI Pacific: 1970-2018

Time Frame	Positive	Negative
Quarterly	61%	39%
One Year	66%	34%
5 Years	76%	24%
10 Years	83%	17%
20 Years	96%	4%

Source: A Wealth of Common Sense

In the MSCI World Ex-US Index and the MSCI Europe Index, the probability of achieving a negative outcome over any 10-year period is essentially zero. In the MSCI Pacific Index, the probability is higher, but this is entirely due to the index's exposure to Japan, which experienced the worst asset price bubble of all time in the 1980s.

Looking ahead, the data shows that pairing a globally diversified investment portfolio with a long-term time horizon is an excellent way to minimize the probability of negative outcomes in the stock market.

Thanks,

Nick McCullum
Sure Dividend

The next newsletter publishes on Sunday, June 16th, 2019

Buying & Ranking Criteria

The method we use to come up with the Top 10 buys for *The Sure Dividend International Newsletter* is as follows:

Note: Ranking data is from Wednesday's Sure Analysis data update.

1. Filter our *Sure Analysis Research Database* universe of securities for:
   - 10%+ Expected total returns
   - A & B Dividend Risk Scores
   - International securities only (no U.S. securities)
2. Sort by expected total return (highest first). If there are not 10 securities matching the above, include C Dividend Risk Score securities.
3. Veto any securities from Top 10 as necessary after qualitative analysis, including a comparison of dividends to cash flows for non-financial securities.
4. The Top 10 is the 10 highest expected total return securities from steps 1 through 3.
5. "A" Dividend Risk Score securities rank ahead of "B" Dividend Risk Score securities which in turn rank ahead of "C" securities within the Top 10.

To receive an "A" Dividend Risk Score, a security must be in the top 20% for dividend safety. To receive a "B" Dividend Risk Score, a security must be in the top 40% for dividend safety. The formula for the Dividend Risk Score is below:

Dividend Risk Score (Raw) = Payout Ratio x 100 – # Years of Steady or Rising Dividends + 50 if deemed risky during a recession

We view securities with A and B Dividend Risk Scores as generally having secure dividends that are very unlikely to be reduced in the near future. Securities with C Dividend Risk Scores also appear generally safe, but don't have quite as high of a margin of safety as A or B ranked Dividend Risk Score securities.

Our formula for expected total return is calculated as the sum of 5-year expected returns from growth on a per share basis, 5-year expected returns from valuation multiple changes, and the current dividend yield.

The combination of expected total returns and low dividend risk creates a screen to find high-quality dividend growth securities outside of the U.S. with strong return potential.

Note that our expected total returns are based on the idea that the global economy will continue forward 'as is' for the foreseeable future, and not enter a recession.

Recessions do happen, of course, and we seek to recommend securities likely to pay steady or rising dividends even during recessions. Recession safety does factor into our Dividend Risk Scores, and in turn, our rankings for *The Sure Dividend Newsletter*.

Past Recommendations & Sells

The Sure Dividend International Newsletter runs entirely on data from *The Sure Analysis Research Database* as of the October 2018 edition and onwards. Due to this change, we are tracking recommendations from October 2018 and forward. For recommendations prior to this date, please see the September 2018 *Sure Dividend International Newsletter's* performance page. We will still track all historical recommendations for sells as they occur.

Sell Rules

Sell Rule #1, Dividend & Risk Sell Rules: International securities often don't increase their dividend payments in regular intervals. Especially in Europe, dividends are paid out more often as a percentage of total profit. This makes selling due to a dividend reduction ill-advised. We will recommend selling when a security materially changes its dividend *policy* for the worse (lower payout), or when we deem that there is excessive risk in the security relating to future dividend payments.

Sell Rule #2, Total Return & Valuation Based Sell Rules: Any past recommendation with expected total returns below the expected total returns of Ex-U.S. developed markets of 5.1% over the next 5 to 10 years should be sold[1]. **Past recommendations at or below this sell threshold are bolded and in green in the Exp. TR column in the table below**. We will only recommend up to two valuation-based sells a month so that the reinvestment of sale proceeds is not concentrated in a short time frame. Only securities held for longer than 1 year are to be sold due to low expected total returns.

Additionally, we will review past recommendations prior to October 2018 for valuation, dividend risk, and expected total returns and periodically make sell recommendations. Not all of our *Sure Dividend International Newsletter* recommendations prior to October 2018 are in *The Sure Analysis Research Database*, so some sell recommendations must be made at our discretion.

Performance is calculated using the closing price on the first trading day *after* the newsletter publishes. Returns include dividends.

Current Holds

Name	Ticker	1st Rec. Date	DR Score	Exp. TR[2]	Total Return[3]
Enbridge	ENB	Oct-18	C	11.9%	20.5%
Micro Focus International	MFGP	Oct-18	C	21.7%	16.9%
Brookfield Renewable Partners	BEP	Oct-18	F	12.6%	12.9%
The Bank of Nova Scotia	BNS	Oct-18	C	17.3%	0.7%
Canadian Natural Resources	CNQ	Oct-18	D	13.0%	-0.9%
WPP	WPP	Oct-18	F	12.1%	-9.6%
British American Tobacco	BTI	Oct-18	D	16.0%	-10.8%
Autoliv	ALV	Oct-18	D	12.1%	-11.4%

[1] Long-term total return estimate for Ex-U.S. developed markets is from AQR's Capital Market Assumptions.
[2] Expected total return over the next 5 years.
[3] Total return data through mid-morning 5/17/19

Canon	**CAJ**	**Nov-18**	**F**	**4.2%**	**2.1%**
Total	TOT	Nov-18	C	15.0%	-1.7%
Sanofi	SNY	Nov-18	C	12.7%	-3.4%
Lazard	LAZ	Nov-18	D	22.2%	-3.4%
Brookfield Asset Management	**BAM**	**Dec-18**	**A**	**5.1%**	**18.6%**
Fresenius Medical Care	FMS	Dec-18	B	11.5%	18.1%
Siemens	SIEGY	Dec-18	C	10.8%	11.4%
Infosys	INFY	Dec-18	C	6.5%	10.1%
Fortis	FTS	Dec-18	B	10.0%	9.4%
Imperial Oil	IMO	Dec-18	A	8.1%	8.4%
ABB	ABB	Dec-18	C	14.7%	4.9%
Aon	AON	Jan-19	A	8.0%	18.8%
Taiwan Semiconductor	TSM	Jan-19	D	6.0%	14.2%
Chubb	**CB**	**Jan-19**	**B**	**4.9%**	**11.6%**
Novartis	NVS	Jan-19	B	7.3%	10.2%
Vermilion Energy	VET	Jan-19	D	7.6%	-1.0%
SAP	SAP	Feb-19	B	7.3%	22.6%
Canadian Imperial Bank	CM	Feb-19	C	14.4%	-2.8%
Canadian Pacific Railway	CP	Mar-19	A	9.5%	11.0%
National Bank of Canada	NATIOF	Mar-19	B	10.6%	1.5%
Royal Bank of Canada	RY	Mar-19	C	12.4%	1.2%
Great-West Lifeco	GWLIF	May-19	C	12.4%	N/A
The Toronto-Dominion Bank	TD	May-19	C	11.7%	N/A

Average recommendation performance (including sells and pending sells): 5.3%
Comparable performance of the Vanguard All-World Ex-US ETF (VEU): 4.0%

Note: Performance should be measured over an *absolute minimum* period of 3 years. The 7 months of return data above is all but meaningless.

Pending Sells

Daimler (DDAIF): We first recommended Daimler in the June 2018 *Sure Dividend International Newsletter*. We recommended it in the October 2018 edition as well (after the switch to *Sure Analysis Research Database* data and rankings). Since the June and October recommendations, Daimler has generated total returns of -16.7% and 2.3%, respectively. We issued a pending sell recommendation on Daimler in the February 2019 newsletter because it reduced its dividend. We recommend selling when it trades for a dividend yield of 5.0% (currently at 5.4%) or below, which we believe is a reasonable estimate of fair value.

Vodafone (VOD): We first recommended Vodafone in the October 2018 *Sure Dividend International Newsletter*. Since that time, Vodafone has generated total returns of -16.7%. We issued a pending sell recommendation on Vodafone this month. We recommend selling the security when it becomes a long-term holding (1+ year holding period) instead of a short-term holding (less than 1 year); this will occur in the October or November 2019 edition of *The Sure Dividend International Newsletter*.

Sold Positions

None at this time.

Tax Guide

Most foreign countries don't require you to file a tax return if you hold/held securities from their country. Instead, dividends are withheld 'at the source.'

You will receive a 1099 statement at year end from your broker. Box 6 will show how much foreign tax was withheld. In most cases you can get a foreign tax credit.

A tax credit is different from a deduction. Deductions reduce your taxable income, while credits are a dollar-for-dollar reduction in your taxes owed. You have the option of taking a credit or deduction. Credits are generally preferable.

The maximum foreign tax credit is equal to the lower of:

1. The tax you would've owed if the security was in the U.S.
2. The total amount of foreign tax paid

Additionally, the tax credit cannot be more than:

(Income from foreign sources / Total taxable income) x Total U.S. taxes owed.

IRS form 1116 is used in these calculations, unless foreign dividend taxes are less than $300 (or $600 filing jointly). In the $300 and below case, you can enter the taxes paid directly onto your tax return as a tax credit.

If your foreign taxes due are higher than the amount of your would-be U.S. taxes, you can carry over the extra tax credit for up to 10 years. Note that the credit is against taxes *paid*. If you aren't paying taxes, you can't use a credit.

Retirement accounts do not accrue U.S. taxes, so you will not get a foreign tax credit if you use your retirement account to invest in international securities. The exception here is that some countries have tax treaties with the U.S. that waive foreign dividend taxes for U.S. retirement accounts.

In addition to dividend taxes, foreign countries *may* impose capital gains taxes as well. Fewer countries tax capital gains than dividends, but some do. Of course, the U.S. does tax capital gains, so you will have to pay the U.S. government any normal capital gains taxes owed.

The list below details the tax rates for all parent countries of current and prior *Sure Dividend International* recommendations.

Country	**Dividend Withholding Tax Rate**
India	0%
Bermuda	0%
United Kingdom (U.K.)	0%
Singapore	0%
China (Mainland)	10%
Lebanon	10%
Russia	15%
Turkey	15%
Japan	15%
France	15%[1]
Canada	15%[2]
Netherlands	15%
Taiwan	21%
South Korea	22%
Germany	26%[3]
Italy	26%
Finland	30%
Sweden	30%
Switzerland	35%

Taxation matters are subject to the individual. While we do our best to present the most accurate and up-to-date tax information, we recommend that investors speak to a qualified tax expert to maximize their tax reductions.

[1] Additional forms must be filed to get this tax rate (see here for more).
[2] 0% if the proper paperwork is filed and the investment is in a U.S. retirement account.
[3] 26% rounded. The actual dividend withholding tax rate is 26.375%.

How To Buy International Securities

There are two primary ways to invest in international securities:

1. Through American Depository Receipts (ADRs).
2. Directly from a foreign stock exchange

We recommend ADRs because it can be time consuming and unwieldly to open brokerage accounts in multiple countries. There is also a convenient available alternative: open a global trading account with your current broker or a different one that offers this service. Among brokers who offer international trading are Interactive Brokers, Fidelity, E*Trade, and Charles Schwab. A global trading account also allows purchasing international securities directly (not with ADRs).

There are three levels of ADRs:
Level I: Exempt from full SEC reporting, and they usually trade over-the-counter (OTC)
Level II: Report to the SEC, but can be listed on a major stock exchange
Level III: Same as level II, and the company can use public offerings to raise capital in the U.S.

Our recommendation for investing in international securities is simple. If a level II or III ADR is available, that is the best way because it is safest. Level I ADRs are riskier because they tend to be relatively illiquid (lower trading volumes) and they don't have to report fully to the SEC.

Investing in Level II and III ADRs is similar to investing in other publicly traded securities on large exchanges. In general, you can tell the level of ADR by its ticker. A level II or III ADR will have a 'normal' 1 to 4 letter ticker. A level I ADR will have a longer ticker, usually 5 letters.

If only a level I ADR is available, we may still recommend it depending on its volume. Our rule of thumb is if average daily volume is ~$1 million or more we may recommend the ADR. If the level I ADR is thinly traded, or if no ADR exists, an investor could still invest directly in the security via that security's home exchange. As a general rule, never trade more than 5% of a security's daily volume. Since other Sure Dividend readers may also be making similar trades, we would prefer to use 1% of volume as a 'safe' level. Depending on your account size, smaller volumes may also generally be safer.

If volume is not sufficient, we will not recommend buying OTC (Level I) shares. When purchasing OTC shares, be sure to use limit orders as market orders could potentially be filled at unsatisfactory prices.

Please email us at support@suredividend.com with any questions you have on the actual process required to purchase international securities. As a newsletter provider, we can't provide specific personal investment advice, only general information.