



Sure Dividend International

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

July 2019 Edition

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Opening Thoughts

- The Impact of a Strengthening U.S. Dollar on the Global Investor's Portfolio -

We occasionally receive questions from our readers about the impact of foreign exchange fluctuations on the recommendations featured in *The Sure Dividend International Newsletter*. Separately, the U.S. dollar has been strengthening in recent months. These two factors combined, encouraged us to provide some commentary on the impact of a strengthening U.S. dollar on a global investor's portfolio.

First, let's discuss the current positioning of the U.S. dollar. On the surface, it might be difficult to understand how we measure the 'strength' or 'weakness' of the U.S. dollar. After all, aren't all currency movements measured in pairs? Couldn't the U.S. dollar appreciate against, say, the yen, while simultaneously depreciating against the euro?

To avoid this problem, investors tend to follow a weighted basket of currency pairs. They specifically tend to look at a *trade-weighted* basket of currencies, which places more weight on the exchange rates for the U.S.'s most important trading partners. The most popular of these indices is Bloomberg's DXY Index, which includes six major currencies: the euro, the Japanese yen, the Canadian dollar, the British pound, the Swedish krona, and the Swiss franc. The euro holds the most weight in the index, contributing approximately 58% of the index's value.

Recent movement in this index has been impressive. Since its trough in January 2018, the DXY has surged from 89.0670 to its current value of 96.8100 – an 8.7% increase.

So how does this affect the portfolios of U.S. investors investing in international securities? In the case of a *strengthening* U.S. dollar, this is beneficial for international investors. Each dollar of U.S. earnings can be used to purchase *more shares of companies* outside the U.S. This is true whether the stocks are bought directly on an international stock exchange or via American Depositary Receipts (ADRs) on a U.S. stock exchange.

We also note that these foreign exchange fluctuations are not irrelevant to investors who choose to buy stocks solely in the United States. According to S&P Indices, the S&P 500 generated 43.6% of its sales in 2017 outside the U.S. Moreover, the proportion of the index's sales generated from outside the United States was consistently between 43.2% and 47.8% between 2014 and 2017 (2014's value of 47.8% was an 11-year high).

For American multinational corporations, a strengthening U.S. dollar is a headwind because it means their international profits are worth less when measured in their reporting currency of U.S. dollars.

To conclude, we should mention that we have no opinion about the long-term directions of any foreign exchange rates. With that said, changes can certainly have an impact on short-term investment results. We believe it is important for investors to understand the potential impact of fluctuating foreign exchange rates, particularly when investing in international stocks.

Sell Recommendations: Deutsche Telekom (DTEGY) and Swiss Re Group (SSREY)

Both Deutsche Telekom and Swiss Re are historical Sure Dividend International recommendations made prior to our switch to using exclusively Sure Analysis Research Database data for our rankings. As a result, they are not reflected in our Past Recommendations & Sells portion of this newsletter.

We first recommended Deutsche Telekom in the inaugural January 2018 edition of *The Sure Dividend International Newsletter*. We first recommended Swiss Re in the March 2018 edition. Deutsche Telekom has generated total returns¹ of 2.0% since that time, and Swiss Re has generated total returns of 8.0% since our first recommendation. For comparison, the Vanguard All-World Ex-US ETF (VEU) has generated total returns of -5.5% since our Deutsche Telekom recommendation, and -2.6% since our Swiss Re recommendation. Deutsche Telekom has outperformed our benchmark by 7.5 percentage points, and Swiss Re has outperformed our benchmark by 4.6%, respectively.

Our reasoning for selling Deutsche Telekom is due to the slow erosion of its dividend's purchasing power in U.S. dollars. In 2009 Deutsche Telekom paid \$1.04 in dividends. In 2019, we expect dividends of \$0.83. Deutsche Telekom had a payout ratio above 100% from 2009 through 2013. The company's payout ratio has come down since but is still relatively high at ~70%. We expect fairly weak growth prospects ahead of 4.0% annually for Deutsche Telekom. These mediocre growth prospects combined with the slow decline of the security's dividend in dollars is why we recommend investors sell today and reinvest in more promising international securities.

Unlike Deutsche Telekom, we expect fairly strong growth on a per share basis of 8.0% annually for Swiss Re going forward. But, the security's earnings-per-share are highly volatile. Earnings-per-share fell drastically in 2017 and 2018 from 2016 numbers. In fiscal 2019, we expect earnings-per-share to just barely cover dividends, resulting in a 93% payout ratio. The combination of volatile earnings, and a relatively high payout ratio and yield (over 4%) gives us concerns about the sustainability of Swiss Re's dividend moving forward. This uncertainty is why we recommend investors sell Swiss Re shares now and reinvest the proceeds into more promising international securities.

These moves will reduce the risk profile in an investor's portfolio relative to dividend income. At the same time, they lock in both modest gains and relative outperformance versus the VEU.

As a reminder, we will only recommend selling securities that have holding periods of longer than one year to qualify for long-term capital gains taxation. This avoids higher short-term tax rates.

The proceeds from both Deutsche Telekom and Swiss Re sells can be reinvested into high-quality international dividend growth prospects with more attractive risk/return profiles. The securities in this month's Top 10 make excellent candidates.

¹ All total return data in this sell report section is from before market open on 7/17/19.

The International Top 10 – July 2019

Name and Ticker	Country	Div. Risk Score	Exp. Value Return	Dividend Yield ¹	Exp. Growth	ETR
Brookfield Asset Mgmt. (BAM)	Canada	A	5.9%	1.1%	12.0%	19.0%
Royal Bank of Canada (RY)	Canada	B	0.7%	3.2%	8.0%	11.9%
National Bank of Can. (NTIOF)	Canada	B	0.6%	3.6%	6.0%	10.2%
Toronto-Dominion Bank (TD)	Canada	B	0.0%	3.2%	7.0%	10.2%
Micro Focus Intl. (MFGP)	U.K.	C	10.8%	5.4%	8.0%	24.2%
Imperial Brands (IMBBY)	U.K.	C	8.3%	9.0%	3.0%	20.3%
Total (TOT)	France	C	2.7%	4.8%	7.0%	14.5%
Scotiabank (BNS)	Canada	C	2.9%	4.3%	6.0%	13.2%
Enbridge (ENB)	Canada	C	0.4%	5.4%	6.0%	11.8%
CIBC (CM)	Canada	C	1.4%	4.6%	5.0%	11.0%

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: BAM, RY, TD, BNS, ENB, and CM. Samuel Smith is personally long BAM.

There are two new securities in this month's Top 10 compared to last month's edition. Inter Pipeline (IPPLF) and Great-West Lifeco (GWLIF) have fallen off this month's Top 10 list while Total (TOT) and the Canadian Imperial Bank of Commerce (CM) have moved onto it.

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

Dividend Yield:	4.4%	Expected Valuation Return:	3.4%
Growth Rate:	6.8%	Expected Total Return:	14.6%

The securities in the *Sure Dividend International Newsletter* have a mix of above-average dividend yields, about average growth prospects, solid 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 July 17th through July 19th, 2019.

¹ After accounting for any applicable withholding taxes.

Analysis of Top 10 Securities

Brookfield Asset Mgmt. Inc. (BAM)

Overview & Current Events

Brookfield Asset Management (BAM) is a leading global alternative asset manager and one of the largest global investors in real assets – which includes real estate, renewable power, infrastructure, and private equity. The company is headquartered in Toronto, Canada and manages a portfolio of public and private investment products for both institutional and retail clients. BAM also manages four publicly traded partnerships: Brookfield Property Partners (BPY), Brookfield Infrastructure Partners (BIP), Brookfield Renewable Partners (BEP), and Brookfield Business Partners (BBU). BAM trades with a market capitalization of US\$48 billion and is cross-listed on the New York Stock Exchange and the Toronto Stock Exchange, where its common equity trades under the tickers BAM and BAM.A, respectively. Despite operating as a Canadian company, BAM reports financial results in U.S. dollars. BAM reported Q1 earnings on May 9. In Q1, funds from operations (FFO) fell 10% to \$1.051 billion versus Q1 of 2018. On a per share basis, FFO fell 10% to \$1.04. FFO was negatively impacted by lower fee-related earnings and lower realized disposition gains. Fee-related earnings took a hit largely because BAM generated outsized performance fees in 2018 thanks to certain public securities portfolios doing particularly well.

Growth, Competitive Advantage & Total Returns

Brookfield Asset Management's competitive advantage lies in its expertise in investing in real assets, which comes from its top-tier management team led by CEO, Bruce Flatt. Indeed, under current management, the company's compounded rates of growth for various business metrics since 1999 are: book value, 12%; FFO per share, 16%; assets under management, 18%; balance sheet assets, 15%; shareholders' equity, 18%; fees and annualized carry, 24%. Importantly, this growth has been done with very little dilution. Brookfield Asset Management targets 12%-15% total shareholder returns over full cycles. We are using a 12% estimate for our growth forecasts moving forward.

Brookfield Asset Management has traded at an average price-to-FFO multiple of 11 over the last decade, if you exclude two years (2012 and 2013) when the company reported abnormally high funds from operations, which artificially lowered its valuation multiple. Looking ahead, our fair value estimate for the company is 12 times funds from operations. The company is trading at 9.0 times our 2019 FFO estimate today. If Brookfield Asset Management's price-to-FFO multiple expands to 12 over the next 5 years, this will boost its total returns by 5.9% per year during this time period. Overall, our estimate for the company's 5-year annualized total returns are 19.0%, comprised of its 1.1% dividend yield, 12% business growth, and 5.9% potential for valuation expansion.

Key Statistics, Ratios, & Metrics

Reporting Currency:	U.S. Dollar	Dividend Yield:	1.1% ¹
Headquarters City:	Toronto	Dividend History:	8 years of increases ²
Headquarters Country:	Canada	10-Year Average P/FFO:	11.0
Stock Exchange:	TSX & NYSE	Price-to-FFO Ratio:	9.0
Year Founded:	1899	Market Capitalization:	US\$48 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 1.3%.

² Although Brookfield Asset Management has only increased its dividend for 8 consecutive years, it has paid steady or rising dividends for 21 consecutive years with a compound annual growth rate (CAGR) of 14.5% during that time period.

Brookfield Asset Management Inc. (BAM) Dividend Yield History



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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.

RBC reported Q2 results on May 23. The bank saw a 6% increase in net income and diluted earnings-per-share growth of 7% against the year-ago period thanks to strong earnings growth in the segments of Capital Markets, Personal & Commercial Banking, and Wealth Management. The bank’s return on equity was solid at 17.5%. Revenue was up 14% against the same period last year, but some of that growth was offset by higher expenses. Provisions for credit losses (PCL) moved materially higher, gaining 55% in Q2 due to higher PCL on impaired loans on a couple of accounts in its Canadian Banking commercial portfolio. However, we believe the bank’s ongoing credit quality still remains strong. Non-interest expense rose 8% in Q2, meaning the bank gained some margin efficiency on lower operating expense growth versus revenue growth. Year-over-year, net interest margin was down from 1.68% to 1.64% in Q2, which is a low value compared to many other banks. Overall, RBC’s quarterly financial performance was in-line with our long-term expectations and has a CAD\$9.00 earnings estimate for fiscal 2019.

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 CAD\$9.00 in fiscal 2019, which is equivalent to US\$6.90. The company’s NYSE-listed shares currently trade around \$80, which implies a price-to-earnings ratio of 11.6. 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 0.7% per year. Combine this potential for valuation expansion with RBC’s growth potential (8.0%) and dividend yield (3.2%) and RBC appears capable of delivering total returns of 11.9% per year moving forward.

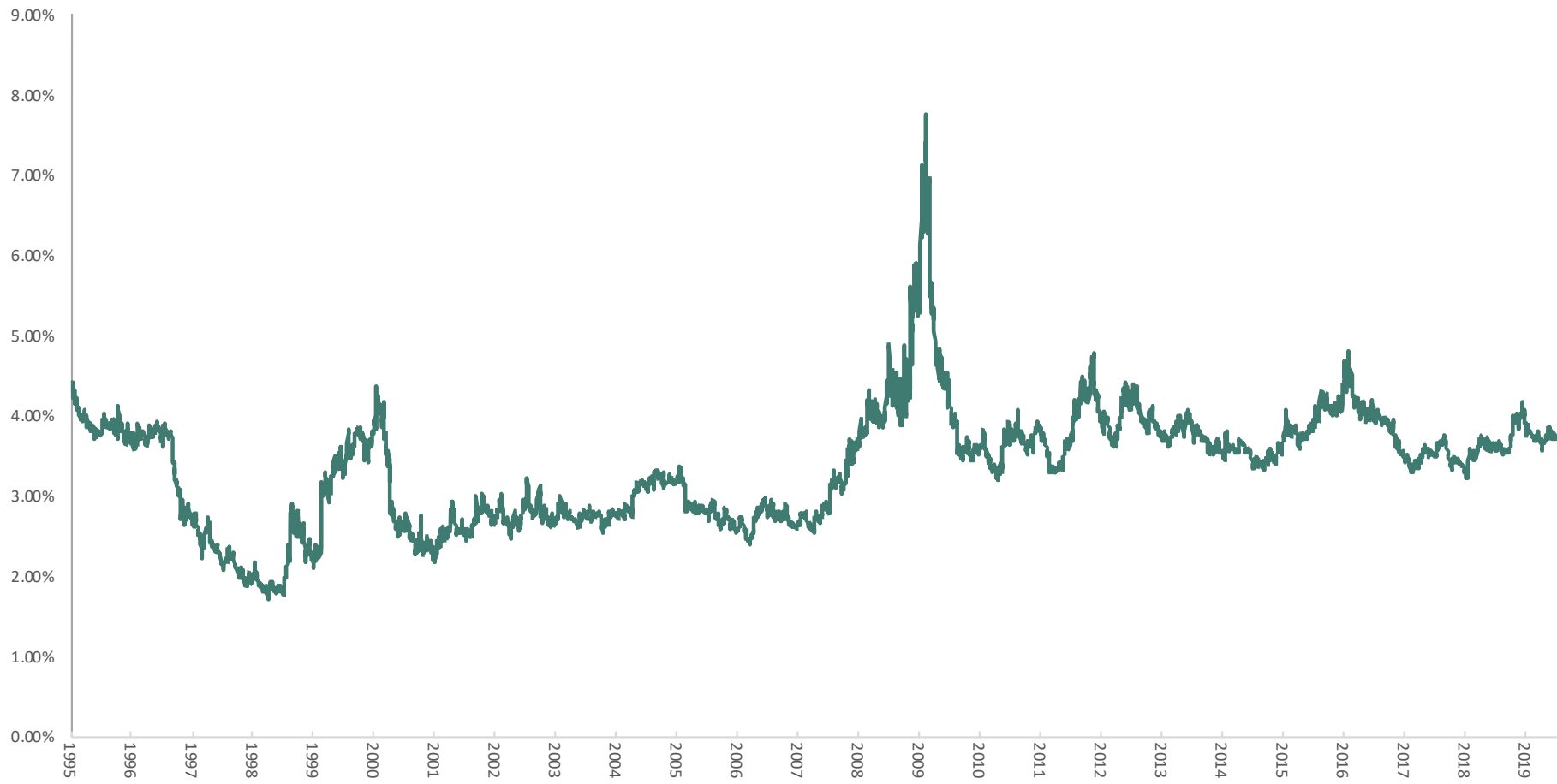
Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	3.2% 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:	11.6
Year Founded:	1864	Market Capitalization:	US\$115 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 3.8%.

² Although RBC (RY) has only increased its dividend for eight *consecutive* years, the company has paid *steady or rising* dividends for decades.

Royal Bank of Canada (RY) Dividend Yield History



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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 \$16 billion.

National Bank reported its fiscal second-quarter results on 5/30/19. For fiscal Q2, National Bank reported revenues of \$1.77 billion, an increase of 1%. Diluted earnings-per-share rose 4.9% to \$1.51 year-over-year, helped partly by share count reduction. Growth occurred in all segments except for a slowdown that occurred in the Financial Markets segment, which was largely due to lower revenue. Net income in the Personal and Commercial segment rose 9% to \$234 million, Wealth Management rose 5% to \$118 million, U.S. Specialty Finance and International rose 14% to \$72 million, but Financial Markets revenue fell 16% to \$160 million. Earnings-per-share rose 5% year-over-year in Q2 to \$1.51. The bank also increased its quarterly dividend by 5% and announced a normal course issuer bid for ~1.8% of its outstanding common shares.

In the first half of the fiscal year, revenue was flat while diluted earnings-per-share rose 3.8% to \$3.01. The bank's common equity tier 1 ratio was 11.5% at the end of Q2. We maintain our estimate of \$6.30 in earnings-per-share for fiscal 2019 after Q2 earnings that were largely in line with our expectations.

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 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 Segments combined. With a 58% revenue exposure to Quebec, the bank's growth rate is tied closely to the economic health of that particular province. Quebec is the second-most populous province in Canada and contributes about 20% of Canada's GDP. It is a stable economy, but its GDP growth is estimated to slow to 1.9% in 2019. Thankfully, National Bank gets some diversification from other provinces, which contribute 29% of its revenue. In addition, it generates 13% of its revenue from outside of Canada, which help contribute to higher growth.

We expect National Bank of Canada to generate earnings-per-share of ~US\$4.85 at prevailing exchange rates. The company's U.S.-listed shares currently trade at \$48.44 per share, for a price-to-earnings ratio of 10.0. National Bank's 10-year average price-to-earnings ratio is 10.3, which is our fair value target for the stock. If the stock'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. The bank also appears capable of delivering earnings growth of 6% per year, and it trades with a current yield of 3.6%. Overall, National Bank is expected to generate total returns of about 10.2% per year over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	3.6% 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\$16 billion

¹Canada 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 4.2%.

National Bank of Canada (NTIOF) Dividend Yield History



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The Toronto-Dominion Bank (TD)

Overview & Current Events

The 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 CAD\$1.3 trillion in assets. Toronto-Dominion produces around CAD\$39 billion in revenue each year and the company trades with a CAD\$137 (US\$108) billion market capitalization. Toronto-Dominion reports results in Canadian dollars.

Toronto-Dominion reported Q2 earnings on 5/23/19 and results were better than expected, with earnings coming in at a Q2 record. Revenue was up 2.3% to CAD\$10.2 billion thanks to particular strength in the core Canadian Retail segment, which saw its revenue rise 8% during the quarter. That strength came from higher volumes, better margins, and more assets under management. The segment's adjusted net income rose 2% year-over-year.

Adjusted earnings came in 6.7% higher on a dollar basis but rose 8% on an adjusted earnings-per-share basis thanks to a lower share count, rising from \$1.62 to \$1.75. We reiterate our estimate of CAD\$6.34 in adjusted earnings-per-share for this year after a solid Q2 report.

The bank also said it plans to buy back another 20 million shares, which represents just over 1% of the current float. The dividend was also declared at the same CAD\$0.74 quarterly payout, good for a gross yield of 3.8%. Toronto-Dominion's capital position remains very strong as its common equity tier 1 ratio is 12%.

Growth, Competitive Advantage & Total Returns

We see Toronto-Dominion producing 7% annual earnings growth in the coming years. Growth should accrue in part from 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 while expenses stay flat or decline. 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, including its most recent repurchase announcement.

Of course, Toronto-Dominion is susceptible to recessions in both the U.S. and Canada and would likely see growth halted or reversed if one occurred. 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 defensive relative to its peers, many of which suffered severe declines in earnings during the last recession.

We expect total returns to be just over 10% annually in the coming years, consisting of the 3.2% net dividend yield and 7% earnings-per-share growth. At 12.1 times this year's earnings estimates, the stock appears fairly valued when compared to our fair value estimate of 12 times earnings. TD earns a buy recommendation given its strong performance during the last recession, a strong history of growth, the 3.2% dividend yield, and the reasonable share price.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	3.2% 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:	12.1
Year Founded:	1855	Market Capitalization:	US\$108 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 3.8%.

The Toronto-Dominion Bank (TD) Dividend Yield History



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Micro Focus Intl. plc (MFGP)

Overview & Current Events

Micro Focus International is a global enterprise software corporation. 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 American depositary receipts (ADRs) have traded on the New York Stock Exchange (NYSE) since 2017.

On July 9th, Micro Focus International reported new financial results that disappointed the market, causing the stock to decline sharply. First half revenue of \$1.66 billion declined by 5.3% year-over-year and missed consensus estimates of \$1.69 billion. Furthermore, the company went from a \$600 million profit in the first half of 2018 to a \$78.3 million statutory loss from continuing operations in the first half of this year. Despite the revenue decline and statutory loss from continuing operations, first half adjusted earnings-per-share (EPS) surged by 8.9% year-over-year. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 1.8% on the strength of a 280 basis point adjusted EBITDA margin year-over-year improvement. These improvements were primarily the result of successful cost reductions in integrating the Hewlett Packard Enterprise (HPE) software. Management reiterated the company's 2019 guidance which expects constant currency revenue to decline by 4% to 6%. Fortunately, Micro Focus expects the revenue decline to stabilize by 2020, while adjusted EBITDA margins are expected to continue expanding to the mid-40% range.

Growth, Competitive Advantage, and Total Returns

Micro Focus has an established presence in high demand technology platforms, including artificial intelligence, IT management, security, and data analytics. Also, the majority of revenue is now recurring, its leverage ratio is just 2.7x, and it has an impressive 115.1% free cash flow conversion rate.

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, with pro forma revenues of US\$4.4 billion and adjusted EBITDA of US\$1.4 billion. The company grew EPS by 19% per year over the past decade, and we expect 8% annual earnings growth over the next five years.

Micro Focus International generated adjusted earnings-per-share of US\$1.87 in fiscal 2018 and we expect the company to grow that number substantially in fiscal 2019 to US\$2.32. Using this estimate, the company is trading at a price-to-earnings ratio of just 9.0; significantly below our fair value estimate of 15. An expanding valuation multiple could add 10.8% to the annual shareholder returns if mean reversion occurred over 5 years. Also, Micro Focus has a 5.4% dividend yield. Finally, expected earnings growth of approximately 8% per year will further pad shareholder returns. All said, Micro Focus International could generate total annual returns of 24.2% over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	U.S. Dollar	Dividend Yield:	5.4% ¹
Headquarters City:	Newbury	Dividend History:	Increasing since 2006
Headquarters Country:	United Kingdom	10-Year Average P/E:	14.9 (since 2017)
Stock Exchange:	LSE & NYSE	Price-to-Earnings Ratio:	9.0
Year Founded:	1976	Market Capitalization:	US\$7 billion

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

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

Imperial Brands plc (IMBBY)

Overview & Current Events

Imperial Brands is a tobacco company headquartered in the United Kingdom. The company manufactures and sells a variety of tobacco products, including cigarettes, tobaccos, cigars, rolling papers, and tubes. Some of its core brands include Winston, Davidoff, Gauloises, L&B, Bastos, Fine, Gitanes, Kool, Jade, and many more. Imperial Brands is organized into two operating segments: tobacco and logistics. The tobacco segment includes the manufacture and sale of its various tobacco products, while the logistics segment distributes tobacco to product manufacturers.

Imperial Brands reported first half of fiscal 2019 results on 5/8/19. Net revenue increased 2.3% mostly due to the core tobacco group. Tobacco revenue grew 2.5% in constant currency as a 6.5% increase in prices offset volume declines. The company increased its cigarette share in the U.S. Adjusted earnings-per-share (EPS) declined 1.3% in constant currency as market loss in the e-cigarette category in the U.S. was partially offset by cost cuts. This was the likely cause of the stock reaching new 52-week lows. Imperial Brands expects revenue to grow at the upper end of its 1% to 4% range for the fiscal year and reiterated its expectation for adjusted earnings-per-share.

Growth, Competitive Advantages, and Total Returns

Imperial Brands reported a volume decline of 4.5% in the first half of fiscal 2019. Going forward, the company will need to address the long-running trend of declining smoking rates. Imperial Brands' future growth will be fueled by its next-generation product line, including blu brand vapor and heated tobacco products. To help finance its growth investments, the company is launching an aggressive cost reduction program, targeting up to US\$2.6 billion in cost savings over the next one to two years. We expect 3% annual earnings growth through 2024. Share buybacks will also help boost EPS growth. The company recently announced a US\$250 million share repurchase by the end of fiscal 2019.

The tobacco industry is widely struggling with falling smoking rates, but the tobacco business has many competitive advantages. Imperial Brands operates in a highly regulated industry, with high barriers to entry. It also has pricing power due to the addictive nature of tobacco. And, the tobacco business is highly recession resistant, as tobacco sales hold up very well during recessions. Imperial Brands' previous four dividend payments totaled approximately US\$2.42 per share, equaling a very high current dividend yield of 9.0%, with no dividend withholding taxes applied. The company recently updated its dividend policy and announced its intention to raise the dividend by 10% in 2019.

Imperial Brands stock trades for a 2019 price-to-earnings ratio of 7.4, which is a fairly low valuation for a highly profitable company. We have a fair value price-to-earnings ratio estimate of 11.0 for Imperial Brands stock. Valuation changes are expected to add 8.3% to the annual returns of the stock through 2024. In addition to 3% expected annual EPS growth and the 9.0% dividend yield, total returns are expected to reach 20.3% per year through 2024.

Key Statistics, Ratios, & Metrics

Reporting Currency:	British Pound	Dividend Yield:	9.0% ¹
Headquarters City:	Bristol	Dividend History:	Steady or rising since 1997
Headquarters Country:	United Kingdom	10-Year Average P/E:	28.3
Stock Exchange:	LSE & NYSE	Price-to-Earnings Ratio:	7.4
Year Founded:	1901	Market Capitalization:	US\$26 billion

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

Imperial Brands plc (IMBBY) Dividend Yield History



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Total SA (TOT)

Overview & Current Events

Total is an integrated oil and gas company based in France. It was founded in 1924, and today it has a presence in over 130 countries around the world. The company generates annual profits in excess of US\$10 billion. Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$145 billion. Like the other oil and gas super majors, it is a fully integrated company. Total operates in four segments: upstream (Exploration & Production); downstream (mostly Refining); Marketing & Services; and Gas, Renewables & Power.

In late April, Total reported (4/26/19) financial results for the first quarter of fiscal 2019. Thanks to the ramp-up of major growth projects, the company grew its production by 9% over last year's quarter, from 2.7 million to 2.95 million barrels per day. However, the average prices of Brent crude and natural gas were 6% and 2% lower, respectively, than the same quarter last year. As a result, Total's earnings fell 4% over last year, while adjusted EPS declined 6%. The company maintains expectations of 9% production growth for 2019, which would place Total at the top of the integrated majors, in terms of production growth this year.

Growth, Competitive Advantages, and Total Returns

As a major oil and gas producer, Total's primary growth catalyst is higher commodity prices. A supportive oil price is critical for Total's bottom line. The worst years for Total have occurred when oil and gas prices declined, such as 2014-2016 when Total's earnings-per-share declined by 55% due to falling commodity prices. Another catalyst for Total is its impressive production growth. Total's 8% production growth last year and guidance for 9% production growth in 2019 are far ahead of its major U.S. competitors, Exxon Mobil and Chevron. Recent project ramp-ups include the Egina field in Nigeria, Ichthys liquefied natural gas (LNG) in Australia, and the third liquefaction train of Yamal LNG in Russia. Total will also acquire assets to fuel growth, such as its planned US\$8.8 billion purchase of African assets from Occidental, if the sale of Anadarko to Occidental is completed.

Total has numerous competitive advantages, primarily its size and global presence. Total is the fourth largest integrated oil and gas company in the world. With its immense financial resources, Total spent more than US\$14 billion on organic investments last year to find and develop new growth projects.

Total is a repeat recommendation in this newsletter because the stock remains undervalued. Total is expected to generate earnings-per-share of US\$5.20 in 2019. Based on this, the stock has a price-to-earnings ratio of 10.4, which is below our fair value estimate of 11.9. Expansion of the valuation multiple could fuel 2.7% annual returns if mean reversion occurred over a five-year holding period. In addition, Total has an expected annual dividend payout of US\$3.10 per share for 2019, resulting in an after-tax yield of 4.8%. The combination of valuation changes, dividends, and expected earnings growth of 7% per year result in total expected returns of 14.5% per year through 2024.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Euro	Dividend Yield:	4.8% ¹
Headquarters City:	Courbevoie	Dividend History:	Steady or increasing since 1982
Headquarters Country:	France	10-Year Average P/E:	12.2
Stock Exchange:	Euronext & NYSE	Price-to-Earnings Ratio:	10.4
Year Founded:	1924	Market Capitalization:	US\$145 billion

¹ France imposes a 15% withholding tax. Excluding this withholding tax, the dividend yield would be 5.7%.

Total SA (TOT) Dividend Yield History



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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 business improvement in fiscal Q2 results on 5/28/19. Revenue increased 10.6% to CAD\$7.8 billion over Q2 2018 thanks to a 6.2% gain in interest income and a 16.2% boost in non-interest income. Earnings from the Personal and Commercial banking businesses were up 8% year-over-year while Global Banking and Markets rebounded strongly. The bank's provisions for credit losses soared 63% to \$873 million in Q2. The provisions put a drag on the net income, but they are essentially a needed expense set aside to cover for uncollected loans and loan payments. Higher provisions are to be expected given that Scotiabank is growing its loan book both organically and via acquisitions, but it does reduce earnings in the short-term.

Adjusted earnings-per-share (EPS) were essentially flat, coming in at \$1.70 vs. \$1.71 in the year-ago period. The bank's capital position also remains quite strong with its common equity tier 1 capital ratio at 11.1%, and its shareholders' equity rose 11% from \$57.2 billion a year ago to \$63.6 billion today. Scotiabank also announced it will repurchase ~2% of its outstanding shares using current market prices. In the first half of the fiscal year, Scotiabank reported diluted EPS of CAD\$3.44, down 3.4% over the same period in the prior year. Therefore, we are revising our EPS estimate down to CAD\$7.25 for 2019.

Growth, Competitive Advantages, and Total Returns

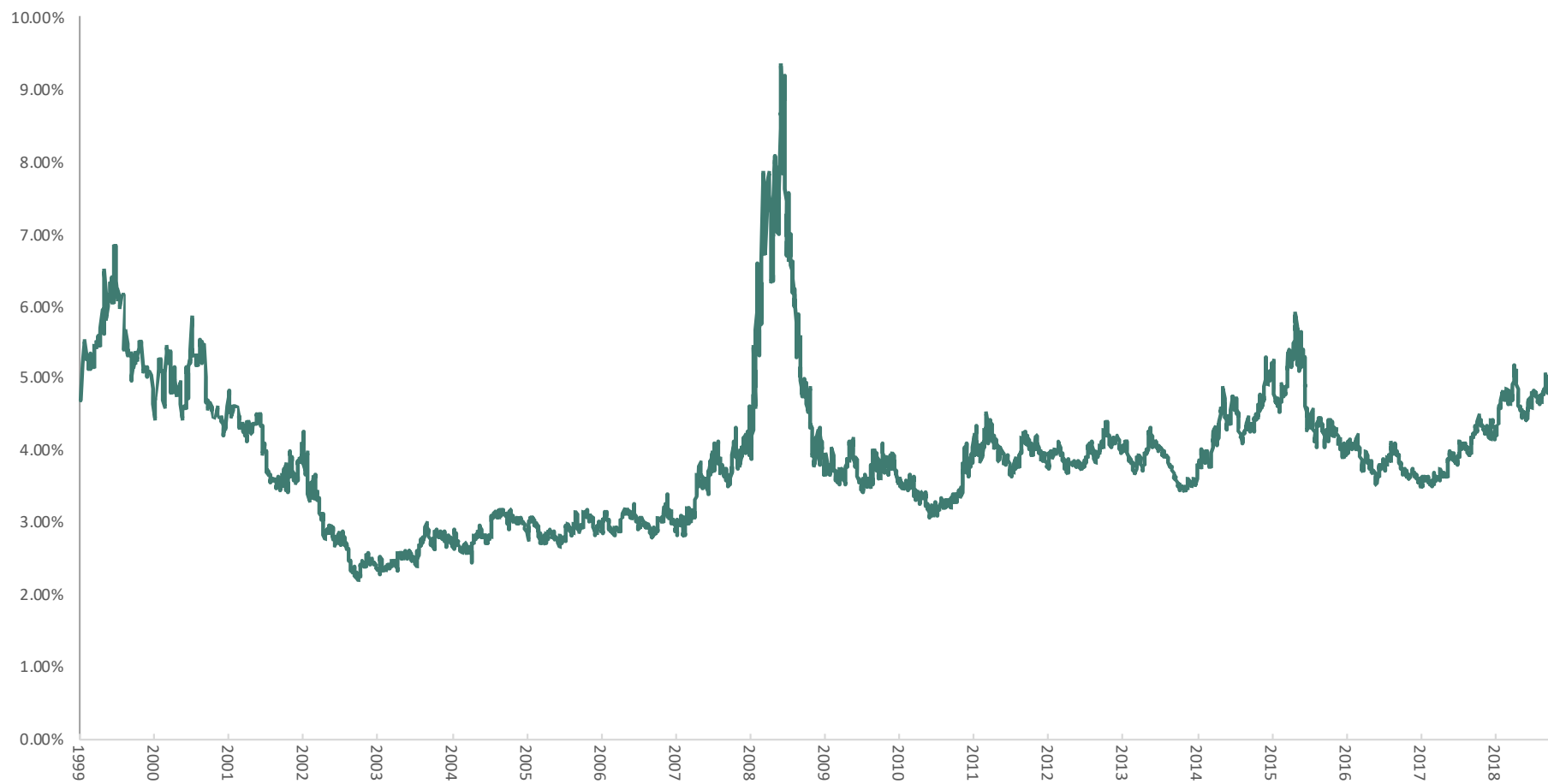
Scotiabank has a positive long-term growth outlook, driven by its expansion into new markets, specifically emerging markets. Scotiabank has been entering markets within Latin America, where it can use its size and capital strength to acquire smaller players and consolidate the industry. These markets are appealing because net interest margins there are higher. Last 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). We expect 2019 earnings-per-share of about US\$5.44, or CAD\$7.25. Using this earnings estimate, Scotiabank's NYSE-listed shares are trading at a price-to-earnings ratio of 9.8 today. Our fair value estimate for the company is a price-to-earnings ratio of 11.3, a slightly downward revision from our previous target P/E, due to the company's slowing EPS growth in recent periods. If Scotiabank's price-to-earnings ratio expands to 11.3 over the next five years, this will add 2.9% to its annualized returns. Between dividend payments (4.3%), earnings growth (6%), and valuation expansion (2.9%), we believe that Scotiabank has the potential to deliver annualized returns of 13.2% through 2024.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	4.3% 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:	9.8
Year Founded:	1832	Market Capitalization:	US\$65 billion

¹Canada 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 5.0%.

The Bank of Nova Scotia (BNS) Dividend Yield History



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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 natural gas liquids (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 reported its first quarter earnings results on May 10. The company generated revenue growth of 1.0% for the quarter, to approximately US\$9.5 billion, although the revenue figure missed the consensus estimate. However, the company managed to grow its profits, as well as its cash flows substantially versus the previous year's quarter. Distributable cash flow (DCF) increased 19% year-over-year, to US\$2.04 billion, which was a new quarterly record for Enbridge.

Growth, Competitive Advantages, 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. The company also acquired Spectra Energy in 2016 for US\$28 billion to significantly expand its footprint. Enbridge expects distributable cash flows of US\$3.33 and US\$3.70 for 2019 and 2020, respectively, using current exchange rates. On top of that Enbridge forecasts that its growth investments will allow for distributable cash flow growth of 5% to 7% beyond 2020. We expect annual DCF growth of approximately 6% per year through 2024.

Enbridge's primary competitive advantage is its strong business model. It has an extensive and diversified network of assets. Over 90% of its cash flow is derived from long-term, take-or-pay contracts, while 90%+ of revenue is derived from investment-grade customers. 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. Maintaining a high credit rating helps lower the company's cost of capital, which leaves more cash flow available to reinvest in growth initiatives.

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 10.8, just below our fair value estimate of 11. This indicates the stock is slightly undervalued at the current price. Expansion of the valuation multiple could add 0.4% to 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 5.4%. Enbridge is a strong dividend growth stock and expects to increase the dividend by 10% annually through 2020. Assuming 6% annual earnings growth, the 5.4% dividend yield, and a 0.4% annual tailwind from valuation changes, we expect annual returns of 11.8% over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	5.4% 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:	10.8
Year Founded:	1949	Market Capitalization:	US\$73 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 6.3%.

Enbridge Inc. (ENB) Dividend Yield History



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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\$35 billion and is also listed in Toronto on the TSX. 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 second-quarter fiscal 2019 earnings results in May (5/22/19). The company generated revenue growth of 3.8% over the same period a year ago. Earnings remained stable with adjusted diluted earnings-per-share rising approximately 1% over the same quarter in the prior year. Despite higher revenue, the adjusted net income of CIBC’s Canadian Personal and Small Business Banking segment declined by 3% for the quarter, due to higher expenses and provisions for credit losses. That said, the bank’s other business segments experienced healthy net income growth. The Canadian Commercial Banking and Wealth Management segment experienced 6% growth while the U.S. Commercial Banking and Wealth Management one grew 18%.

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 Chicago-based PrivateBancorp – which operates as The Private Bank – gives the company a foothold in the critically important U.S. economy. We expect CIBC to continue its expansion into the United States. 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 EPS growth in the mid-single-digits moving forward. Rising loan balances should drive earnings expansion, partially offset by a slowly rising share count over time.

The company’s competitive advantage is its entrenched position in its core services. CIBC is not the largest bank in its main market of Canada, nor in the United States. This is not necessarily a headwind, as both banking markets are large enough for many different players. Due to a focus on consumer banking, and especially mortgages, CIBC has a relatively low-risk portfolio relative to other banks.

We see CIBC generating earnings-per-share of about US\$8.16 in fiscal 2019. Shares currently trade for a price-to-earnings ratio of 9.6. Our fair value target for CIBC is a price-to-earnings ratio of 10.3. If the bank’s price-to-earnings ratio were to expand to 10.3 over the next five years, this would bolster the stock’s annualized returns by 1.4% per year. Combining this with the 5% EPS growth estimate and the current yield of 4.6%, we believe that CIBC is capable of delivering annualized returns of 11% per year over the next five years.

Key Statistics, Ratios, & Metrics

Reporting Currency:	Canadian Dollar	Dividend Yield:	4.6% 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:	9.6
Year Founded:	1867	Market Capitalization:	US\$35 billion

¹Canada 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 5.4%.

Canadian Imperial Bank of Commerce (CM) Dividend Yield History



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Closing Thoughts

- The Differences Between U.S. GAAP & IFRS -

Domestic-only investors become quickly accustomed to analyzing company financial statements prepared in accordance with United States generally accepted accounting principles – or U.S. GAAP, for short. Stocks headquartered outside the United States must conform to a different set of accounting standards called International Financial Reporting Standards (IFRS). With that in mind, this month's Closing Thoughts will discuss the key differences between each set of accounting standards.

To begin, let's discuss the purpose of IFRS. IFRS was created to promote a *global* set of accounting standards. More than 100 countries have adopted IFRS, including Canada and those in the European Union. Other countries give corporations the choice of whether to follow IFRS. Japan is an example, where companies can choose between IFRS, Japanese GAAP, Japan's Modified International Standards (JMIS), and U.S. GAAP. The United States is the only major global economy where companies *cannot* follow IFRS when preparing their financial statements.

There are a number of key differences between the two accounting methodologies. The primary difference is that GAAP is rules-based while IFRS is principles-based. What this means is that IFRS guidelines provide less overall detail than GAAP, leaving more room for interpretation. This can result in lengthy notes to the financial statements and other long disclosures.

There are also notable differences when it comes to inventory accounting. IFRS rules prohibit the use of last-in, first-out (LIFO) inventory accounting, while the U.S. GAAP allows them. Both systems allow for first-in, first-out (FIFO) and weighted average cost methods.

Another difference can be found when looking at the frameworks for depreciation. Under U.S. GAAP, the component approach for depreciation – which means that each identifiable component of a capital project must be separated and depreciated separately – is not necessary, while it is required under IFRS. Also, IFRS requires that residual values and useful lives must be reassessed at each balance sheet date. No revisions are needed under U.S. GAAP.

Lastly, U.S. GAAP requires that financial statements must be published with a statement of comprehensive income. This is not required under IFRS. The statement of comprehensive income includes net income as well as unrealized gains or losses on financial instruments and foreign currency gains and losses. Because IFRS does not require the statement of other comprehensive income, IFRS income statements are more complex and possibly harder to analyze.

The *entire* list of differences between U.S. GAAP and IFRS are complex and outside of the scope of this newsletter's Closing Thoughts. With that said, we thought it would be useful to provide a brief overview of the differences. [This excellent document](#) from PwC has more information if you would like to further explore the differences between these two important frameworks.

Thanks,

Nick McCullum
Sure Dividend

The next newsletter publishes on Sunday, August 18th, 2019

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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*.

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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 sold¹. **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 Top 10 & Past Hold Recommendations

Name	Ticker	1st Rec. Date	DR Score	Exp. TR ²	Total Return ³
Brookfield Renewable Partners	BEP	Oct-18	F	9.3%	30.3%
Enbridge	ENB	Oct-18	C	12.4%	17.0%
Bank of Nova Scotia	BNS	Oct-18	C	18.1%	1.8%
Micro Focus International	MFGP	Oct-18	C	24.5%	0.9%
British American Tobacco	BTI	Oct-18	D	12.9%	-5.7%
Canadian Natural Resources	CNQ	Oct-18	C	13.6%	-6.7%
Autoliv	ALV	Oct-18	D	12.3%	-8.0%
WPP	WPP	Oct-18	F	13.5%	-12.4%

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 7/19/19

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Canon	CAJ	Nov-18	F	4.1%	3.1%
Lazard	LAZ	Nov-18	D	21.6%	0.1%
Total	TOT	Nov-18	C	14.9%	-0.7%
Sanofi	SNY	Nov-18	C	12.5%	-3.1%
Infosys	INFY	Dec-18	C	4.5%	22.0%
Brookfield Asset Management	BAM	Dec-18	A	19.2%	20.9%
Fortis	FTS	Dec-18	B	9.1%	16.4%
Fresenius Medical Care	FMS	Dec-18	B	9.5%	13.7%
Imperial Oil	IMO	Dec-18	A	8.9%	5.1%
Siemens	SIEGY	Dec-18	C	12.6%	3.0%
ABB	ABB	Dec-18	C	9.4%	2.7%
Aon	AON	Jan-19	A	6.3%	27.9%
Novartis	NVS	Jan-19	B	4.3%	26.0%
Taiwan Semiconductor	TSM	Jan-19	C	4.9%	24.8%
Chubb	CB	Jan-19	A	4.2%	15.4%
Vermilion Energy	VET	Jan-19	D	12.5%	-15.4%
SAP	SAP	Feb-19	B	7.6%	19.3%
Canadian Imperial Bank	CM	Feb-19	C	11.8%	-5.8%
Canadian Pacific Railway	CP	Mar-19	A	8.4%	16.2%
National Bank of Canada	NTIOF	Mar-19	B	10.9%	6.5%
Royal Bank of Canada	RY	Mar-19	B	11.9%	3.9%
The Toronto-Dominion Bank	TD	May-19	B	10.6%	6.9%
Great-West Lifeco	GWLIF	May-19	C	13.5%	3.8%
Imperial Brands	IMBBY	Jun-19	C	20.1%	10.6%

Average recommendation performance (including sells and pending sells): 6.5%

Comparable performance of the Vanguard All-World Ex-US ETF (VEU): 7.9%

Note: Performance should be measured over an *absolute minimum* period of 3 years. The 9 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 -24.0% and -6.3%, 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 7.1%) 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 -12.8%. We issued a pending sell recommendation on Vodafone in the May 2019 edition of *The Sure Dividend International Newsletter*. 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.

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:

$(\text{Income from foreign sources} / \text{Total taxable income}) \times \text{Total U.S. taxes owed.}$

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 unwieldy 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.