

## SPECIAL REPORTS

## Starter Dividend Stocks

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With over 40 active recommendations in *Dividend Investor*, it can be hard to know where to start if you're new to investing and trying to build a diversified portfolio of at least 15-25 stocks. After all, you receive a new recommendation and 5 Best Buy recommendations each and every month — how do you know what to buy first?

That's where our Starter Stocks come in. Starter Stocks are companies that we believe provide a good foundation for a portfolio, striking a fairly conservative balance between risk and reward. We didn't choose these companies with the idea that they would provide us with sky-high returns or a nice fat yield but, rather, that we believe they would offer market-beating potential with some stability and relatively safe growth. When you're building a portfolio (or starting a new one), we think it's important to have cornerstone investments like these in place, and, if you're a new member, what we would like to suggest you consider doing today is to buy 5 stocks. Not just any 5, but the 5 recommendations that we call our 'Starter Stocks'.

While we're quite confident these stocks will be around for a long, long time, we're not married to them forever. That means that some companies might linger from one year to the next, while others are replaced. If you do see us update this list and one of your Starter stocks doesn't appear, don't worry — we're still committed to them and think they make great investments. As always, we'll let you know if that ever changes by issuing a Sell recommendation to all of our members.

Now, we can't (and won't) give you personal financial advice. But if you're here, we figure it's because you want to invest well. We reckon you probably want to beat the market (otherwise, you could just buy a broad, index-based exchange-traded fund (ETF) and go fishing!).

That's precisely what we aim for at *Dividend Investor* (the market-beating thing, not the fishing!). So if you're playing along at home, we want you to buy these 5 stocks.

And don't get us wrong: these Starter stocks aren't only for the 'new' investor. These are the 5 companies we think should form the bedrock of every portfolio that is aiming to beat the market.

Let's now take a look at our 5 Starter Stocks.

### Westpac (WPA)

#### What The Company Does

Westpac is an investment conglomerate which owns and operates some of the most iconic brands in Australia today, including Banking Westpac, Westpac Asset, Targa Offshore and more recently, Protein Pharmacy. In addition to these, Westpac operates Westpac Financial, Energy and Northern Assets, as well as a utility and industrial division.

#### Why We Like It

Westpac's businesses aren't just solid, they're category leaders. Banking Westpac has the home in government industry contract, while Targa and Targa are dominating the low cost offshore space.

Butter yet, the company's energy and utility divisions are setting up for a return to their usual Westpac and the company's record based growing segment and produced earnings before tax of \$100 million, up from \$70 million in 2014. Meanwhile, the industrial and utility division grew earnings before tax by \$100 million.

Westpac's net earnings are \$100 million. The company is targeting \$1 billion in 2015, \$2 billion in 2016.



operational costs, with a focus on developing profiles and improving existing operations for long-term growth.

## Risks And When We'd Sell

At the end of the day a majority of Medformers businesses are still smaller. As such, they must deal with all of the challenges smaller face on a daily basis. Changes in consumer tastes, the broader effects of the economy, and the shift in online trading are risks that Medformers has to face. We also have to deal with general offering. Turnover is largely smaller than many of these challenges. However, I am sure to see a change in consumer behaviour away from the cheap and quick end of the market like you'll find Medformers' Small and Target businesses.

## What Makes It A Starter Dividend Stock

We don't expect Medformers to produce the single digit growth rates you see at the smaller end of the market. But the beauty of such a mature business isn't in its consistent growth rates, instead what we adhere to is stability, both in income and capital growth. Medformers might not be the fastest growing, but we can rest assured it'll be producing returns for the long haul.

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## Senix Healthcare (ASX:SHL)

### What The Company Does

If you've ever taken a blood sample or, more recently, a COVID-19 test then a good chance it was done and tested by global medical diagnostics company, Senix Healthcare. In addition to these tests the company also provides a suite of radiography services including X-ray, CT Scan, MRI, and ultrasound.

Senix operates in a number of countries, including Australia, the USA, Germany, Switzerland, the United Kingdom, Belgium and New Zealand, and employs over 1,000 pathologists and radiologists. In addition to this, there are more than 10,000 medical scientists, radiographers, sonographers, technicians and nurses.

### Why We Like It

Senix benefited immensely from the pandemic, with COVID testing contributing a total of \$1 billion in revenue over the last three years. We particularly applaud management's capital allocation strategy during this time, which included reducing company debt from \$1.1 billion to \$600 million, placing growth at second rate focus and positioning the company perfectly for ongoing operational growth.

What's more, outside of this the company has an incredibly stable and growing base business, which provides investors with global diversification across 7 countries, all of which also has historically been a stable, high return industry.

Lastly, Senix has a progressive dividend strategy, which has seen it maintain or increase its dividend every year since it paid its first quarterly dividend of 1 cent back in 1994, placing it among the list of dividend kings.

## Risks And When We'd Sell

Senix's business model is that of acquisition growth and given the company's need to continue to expand — and staying true to the mature Australian market — it runs the risk of paying too much for new business, and not doing enough due diligence on its targets. Future benefits, but to materialise, falling margins could be evidence that Senix has reached the limits of its acquisition-led strategy. However, we'll need to judge this over a number of years, as well as prices.

## What Makes It A Starter Dividend Stock

Senix's base business remains a stable performer for the company. It's well positioned to capitalise on an aging population in the markets it operates in, supported by a greater awareness of the need for pathology brought about by the current crisis. Finally, its track record of maintaining or growing its dividend makes it a must have for any income focus.

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## Washington H. Soul Pattinson and Co (ASX:WPC)

### What The Company Does

Washington H. Soul Pattinson is Australian leading investment house, with a history dating back to 1870. When you invest in the company — formerly referred to as WHP — you actually own a stake in a multi-

list of companies already in our concentration will be among other successful businesses including [Woolworths](#) (ASX:WOW), [Wingware Group](#) (ASX:WGG), [VMS Telecom](#) (ASX:VMS), [Safeline Technology](#) (ASX:SAF), and most notably, [Brisbank](#) (ASX:BRB), of which WDF owns a 25.7% stake.

## Why We Like It

WDF is the second oldest company on the ASX — originally listing in 1985. In fact, it has never failed to pay a dividend and, for 20 years, has increased the dividend each and every year — putting it in a class of its own when it comes to ASX listed dividend-paying companies. Its management also comprises some of the strongest investment minds in the country who have a long history of successfully using a value-based approach to allocating capital.

## Risks And When We'd Sell

The bulk of the risk is associated with how the underlying businesses in the WDF portfolio perform. If these companies don't perform as expected, WDF can't either. As a form of diversification, however, means that it's unlikely that all companies are negatively impacted by economic activity at the same time but, as we said during the IPO, it can happen.

## What Makes It A Starter Dividend Stock

There are few companies on the ASX that have the history of successful outperformance that WDF can boast. Thanks to its conservative, value-focused management who are deeply invested in the company along with extended family, we can be confident that WDF will find a way to continue providing investment with both growth and income over the very long term.

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## Sticker Data (ASX:SDS)

### What The Company Does

Sticker Data is the largest provider of technology hardware, software and cloud-related solutions in Australia and is the second largest in New Zealand (NZ), having started in 1978. It has been operating for at least 40 years, and was listed on the ASX in 2011.

Sticker Data is the standard in the technology value and supply chain that supports over 10,000 IT reseller partners to design, configure, deliver and deploy the technology that helps address the myriad challenges every business — small and large — need to contend with.

### Why We Like It

Sticker Data also continues to grow market share in terms of the number of reseller partners and, additionally, management's best estimate is that partners are spending more money with Sticker Data than they are with competitors.

Shareholder alignment with the Sticker Data leadership team is among the best we've seen on the ASX. Even Sticker and Steve Brown, who is a founder and board member, continue to own large swathes of the share count, while the former is only compensated through the dividends he receives from the company. Additionally, Chief Operating Officer Andrew Minnowell and Chief Financial Officer Gary Ingham have both been consistently buying shares in Sticker Data with their own savings for many years now, showing insider confidence and passion for the business.

Why wouldn't they be buying? Despite a flat profit trend recently, returns on shareholder equity have been strong and the trading price has fallen to well below its peak of \$7.50 in January 2021.

### Risks And When We'd Sell

Sticker Data's Top 5 reseller contributed 48% of revenues in FY21. There's no doubt that losing any of these key resellers will have a significant impact on company revenues. However, the company has been taking steps to diversify reseller concentration over the last several years as this figure has reduced from 65% in FY17. We continue to watch this metric every time it reports.

### What Makes It A Starter Dividend Stock

Sticker Data is a well-managed, profitable business with a solid performance track record. The company has certainly been a major beneficiary of the "COVID buying" wave, but the company's ability to focus on its core areas and use its cash to benefit the rest from the ongoing digital transformation should see it continue striving for its foreseeable future.

## What The Company Does

APA Group is one of the country's leading energy infrastructure businesses with the country's largest pipeline and gas storage facilities around Australia. In addition to gas related assets, the company also has two pipelines which generate electricity, solar, wind and other renewable electricity assets, making it the 3<sup>rd</sup> largest generator of renewable energy in Australia.

APA's main assets stretch right across the country, covering all major hubs of Australia, transporting more than half of the natural gas used in the country through its 13,000km of gas pipelines. These are the longest in Australia, according to figures by several competitors. APA also generates combined, which has a 2,000MW and 1,000MW of pipelines respectively.

## Why We Like It

The main reason we like APA is that, from a dividend perspective, it has a low risk and predictable business model. The main majority of its revenue is earned from gas transportation which has historically seen strong stable demand. Many of its contracts have terms extending beyond 10 years, making the revenue extremely predictable and largely fixed over long periods. This has allowed APA to consistently increase its distributions for the past 10 years, and is targeting distribution growth of 10% to 15% to 20 cents per security.

It is expected that between 2022 and 2027, an additional 20% percentage of natural gas is required to meet forecast demand on the east coast of Australia, providing plenty of opportunity for additional gas supply in Queensland. We therefore are confident that gas will remain an important component of Australia's energy mix for the foreseeable future, helping to secure APA through long term future in Australian gas supply needs.

## Risks And When We'd Sell

If Australia transition away from fossil fuels completely, and towards more distributed renewable electricity generation faster than expected, this could affect our thesis for an investment in the company. While that will reduce gas to some extent than 100%, for example, and also play an important role as an intermediate step in the transition away from coal and towards renewable forms of energy. Even that coal will account for approximately 10% of Australia's electricity generation, so we see it as an important tool in providing the ability of energy supply during the transition towards more renewable sources of energy.

## What Makes It A Starter Dividend Stock

APA has proven itself to be an excellent investment option for dividend and growth focused investors alike. The company continues a highly stable long term dividend stream with strong growth from its well-planned asset replacement and future focused developments.

While there are no guarantees on what distributions will be in the future, we do like the fact that dividends have been grown year on year over the last 10 years, with an international presence, and a strong and stable dividend, we believe APA is a worthy member of our Starter Stocks.

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AS OF 28 MARCH 2023. **MOTLEY FOOL CONTRIBUTOR DARIUS ZARGHAMI HAS POSITIONS IN** [REDACTED] **AND** [REDACTED] **MOTLEY FOOL CONTRIBUTOR EDWARD VESELY HAS POSITIONS IN** [REDACTED] **AND** [REDACTED]. **THE MOTLEY FOOL HAS A DISCLOSURE POLICY. FOR DETAILS ON HOLDINGS BY THE MOTLEY FOOL AUSTRALIA'S PARENT COMPANY MOTLEY FOOL HOLDINGS INC PLEASE [CLICK HERE](#). FOR DETAILS ON HOLDINGS BY MOTLEY FOOL AUSTRALIA PLEASE [CLICK HERE](#). THIS ARTICLE CONTAINS GENERAL INVESTMENT ADVICE ONLY (UNDER AFSL 400691). AUTHORISED BY SCOTT PHILLIPS. ANY AND ALL ADVICE CONTAINED IN THE ABOVE CONTENT IS GENERAL ADVICE THAT HAS NOT TAKEN INTO ACCOUNT YOUR PERSONAL CIRCUMSTANCES. BEFORE YOU ACT ON THE GENERAL ADVICE WE PROVIDE, PLEASE CONSIDER WHETHER IT IS APPROPRIATE FOR YOUR PERSONAL OR INDIVIDUAL CIRCUMSTANCES. PLEASE REFER TO OUR [FINANCIAL SERVICES GUIDE](#) FOR MORE INFORMATION OR EMAIL MEMBER SUPPORT TO REQUEST A COPY.**

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