



3 Top Dividend Growth Stocks Yielding Up to 4.3%

Description

If an idiot like me can earn safe, double-digit dividend yields from my investment portfolio, then I'm betting you can too.

Here's the thing: You won't find these deals by buying the highest yielding stocks. Companies with unusually high payouts often have limited growth potential. Worse still, high payouts may be a red flag. It could be a signal that the underlying business is in trouble.

Lower-yielding stocks, in contrast, are often overlooked by income investors. But these stocks can be very powerful. Given enough time even a modest yield can become a monster payout as dividend hikes are compounded overtime.

Just as you can't judge a book by its cover, income investors can't judge a stock by its yield. So with this idea in mind, here are three wonderful companies with room to hike their payouts significantly in the years to come.

Suncor

Sitting underneath northern Alberta is 168 billion barrels of bitumen — about half of the world's proven oil reserves that are accessible to private investment. According to estimates by the Canadian Association of Petroleum Producers, daily oil sands output is expected to grow threefold to 5.3 million barrels per day by 2030.

As the nation's largest oil sands producer, **Suncor** ([TSX: SU](#))([NYSE: SU](#)) is on the front line of this trend. And the good news for investors is that much of the billions of dollars the company is expected to earn over the next several decades will trickle down to shareholders. Since new Chief Executive Steve Williams took over at the company in late 2011, the company has increased its dividend three times to \$0.23 per share every quarter — an increase of 109%.

But I think there's more to come. In 2013, Suncor doled out \$1.1 billion in dividends alone. That's nothing to sneeze at, but the company earned nearly \$3.9 billion during that same year. That means the company paid out a third of its earnings to say nothing of its growing cash flow.

Inter Pipeline

I doubt you've heard of this company, but its business is vital to our day to day lives. Without this firm our modern society would screech to a halt.

Inter Pipeline's (TSX: IPL) is one of the largest energy pipeline and storage in Western Canada. Investors love this type of business because it faces limited competition and throws off ample free cash flow. The company returns much of that money back to its investors through a rising stream of dividends.

Over the past decade the firm has increased its dividend 15 times and today the stock yields 4.3%. But that's nothing compared to what might be coming next. Thanks to booming oil sands and shale production in Alberta, the amount of oil and gas that's being pulled out of the ground today is a fraction of what we're likely to see a decade from now. More barrels flowing through Inter Pipeline's network should fuel the company's earnings — and dividends — for years to come.

Fortis

Fortis (TSX: FTS) gives you a stake in dozens of utility monopolies across North America. The company owns electric grids in British Columbia, gas distribution networks in New York, and hotels in Eastern Canada. You can't find a portfolio of assets quite like this anywhere else.

Management has a remarkable track record of rewarding shareholders. Since 2000, Fortis has increased its dividend at a 7.9% clip. If you had bought and held the stock over that time, your yield on cost would be 16.1% today.

And while the overall industry is relatively stagnate, Fortis has a number of growth opportunities including its recent \$1.5 billion acquisition of CH Energy Group, the \$900 million Waneta hydroelectric dam expansion in British Columbia, as well as about \$500 million in infrastructure growth opportunities in British Columbia tied to liquefied natural gas exports. All of this means the company will likely be able to continue rewarding shareholders for years to come.

Foolish bottom line

Investing doesn't have to be complicated. By simply buying a collection of wonderful business and holding on for the long haul, you can build a safe stream of income. The three stocks on this list are a good place to start.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:SU (Suncor Energy Inc.)

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