4 Dividend Growth Stocks Yielding Up to 6.2%

Description

I’m going to share a very simple-to-use formula that can help you create a distinguished portfolio of dividend stocks. Not just any dividend stocks, mind you, but dividend *growth* stocks.

It’s called the “5 + 5” portfolio. This method was developed by Daniel Peris, a portfolio manager with Federated Investors and author of one of my favourite books, *The Strategic Dividend Investor: Why Slow and Steady Wins the Race*. While it was written for an American audience, the insights Peris shares with his readers are just as applicable to the Canadian market.

The strategy works like this:

- Create a portfolio that generates a current income stream of 5%.
- Include wonderful businesses that can grow their payout by at least 5% per year.

Both elements are important here. Of course, the tall current yield generates an immediate stream of income. However, growth is also essential because the portfolio needs a burgeoning stream of dividends to offset inflation and generate some capital appreciation.

Together, the combination of yield and growth should produce a total return of about 10% annually, before fees. So with this in mind, let’s assemble a simple dividend portfolio that follows this formula.

1. Enbridge Income Fund Holdings

Enbridge Income Fund Holdings (TSX: ENF) makes you a partner in dozens of infrastructure monopolies across North America. The company owns natural gas pipelines in the Midwest, oil storage terminals in western Canada, and green power generation facilities in Ontario. You can’t find a portfolio of assets quite like this anywhere else.

Because the commodities it ships through its network are essential for powering our society, the cash the company generates is just as steady. Most of its businesses are contracted or regulated, practically guaranteeing a respectable return on investment. Because these services are essential services, the firm can pass on rising costs to customers.

This means a growing stream of dividend income for shareholders. Over the past decade, the company has increased its dividend at a 5% compounded annual clip. With rising energy production from shale plays across the continent, investors can count on that growth to continue.

2. Crescent Point Energy

With a yield of 6.2%, it's not hard to see why **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) is a favourite of dividend investors.

This stock is more than just a juicy yield. Buoyed by rising production and energy prices, Crescent Point has boosted its payout by 35% over the past decade. The company should be able to sustain that growth rate thanks to new oil discoveries and improvements in shale drilling technology.

It's also rare to find a high-yield energy stock with such a dependable payout. Crescent Point pays out less than 50% of its funds from operations and most of its oil production is hedged. For investors who can stomach volatile oil prices, this is a good addition.

3. BCE

BCE (TSX: BCE)(NYSE: BCE) has the No. 1 quality I look for in a dividend stock: a sustainable competitive advantage.

The company's massive telecom network would cost tens of billions to replicate. Despite the government's best efforts to encourage competition, smaller players have failed to gain much traction. Even **Verizon** passed on entering the Canadian telecom industry.

This means two things for dividend investors: a dependable payout and dividend growth. BCE has paid shareholders an uninterrupted dividend for 133 years. Without much in the way of competition, BCE can easily pass on higher prices to customers — and higher dividends to shareholders.

4. Fortis

People need electricity and gas to power their homes and keep them warm in the winter. That's what makes owning a utility like **Fortis** (TSX: FTS) so attractive.

Fortis is the country's largest investor-owned gas and electric utility, with 2.4 million customers in Canada, New York state, and the Caribbean. Over 90% of the company's assets are regulated, which means they provide a predictable stream of cash flow. The rest includes faster growing, non-regulated assets such as hotels and commercial real estate.

What I like best about Fortis is its history of rewarding shareholders. Since 1972, management has increased its dividend payout to shareholders every single year — the longest streak of any public Canadian company. When you invest in a dominant monopoly with a 4.0% dividend yield, you can be confident that your capital has a great chance of compounding year after year.

The results are in …

Four securities could hardly be considered a well-diversified portfolio. However it does illustrate the “5 + 5” concept. This basket, equally weighted, would yield 5.02% today, right in line with the target. Every company on this list has the potential to deliver 5% plus dividend growth for the foreseeable future.

The bottom line is that dividend investing is more than just identifying the highest-yielding securities. Taking a page out of Mr. Peris’s book (literally), truly great dividend stocks offer high current income *and* dividend growth potential.

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