3 Long-Term Buy-and-Hold Dividend Growth Stocks

Description

Not many of us think about investing in stocks for the long term. I certainly didn't when I first started investing in the stock market, as I was lured by the prospects of rapid returns and investing in the next hot stock. But after 12 years of experience in the investment management industry I have come to appreciate the value of long-term investing, particularly in those companies with steadily growing dividends and solid growth prospects.

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The key to getting this right is identifying those companies which have dividends steadily appreciating at a rate higher than inflation so as not to erode the real rate of return, a wide economic moat and solid underlying growth prospects. Typically, such companies are large caps with a solid growth history and dominant market positions in industries with high barriers to entry.

Let's take a closer look at three stocks that I believe are cornerstone investments in any long-term investment portfolio.

Growing agricultural demand gives this miner a solid long-term outlook

Canadian-listed **Agrium** (TSX: AGU)(NYSE: AGU) continues to retain a solid long-term outlook as the demand for crop protection and nutrients continues to grow along with rapidly industrializing emerging economies and their explosive population growth.

The company's dividend currently yields a healthy 3.3%, higher than the risk-free rate of return of the 2.3% yield paid on 10-year Canadian government treasuries, and is very sustainable with a conservative payout ratio of 35%. But more impressively for investors is Agrium's dividend has grown by an impressive 126% since inception in 2002, giving it a compound annual growth rate of 24%, which is more than 12 times Canada's annual average inflation rate for the same period.

Agrium may not possess the most imposing of economic moats, but growing demand for agricultural products both at the wholesale and retail level as the global population and demand for food grows will certainly boost long-term revenue. Already this long-term view saw **BHP Billiton**, the world's largest mining company, make a failed bid for **Potash Corporation of Saskatchewan** in 2010.

While Agrium recently has been beset by some woes, it offers investors a dividend yield in excess of the risk-free rate and a dividend which is growing far faster than inflation. When coupled with growing demand for agricultural products over the long term I would expect this to continue.

A conservative growth strategy and tasty yield sets this top five bank apart

I have to admit I am tremendous fan of the **Bank of Nova Scotia** and its focus on growth through investing in Latin America, but I have grown to appreciate the **Bank of Montreal** (TSX: BMO)(NYSE: BMO). Not only does it offer a higher dividend yield, the second highest among the top five at 3.9%, but also gives investors exposure to a conservative growth strategy focused on the U.S., which is the world's largest financial services market.

Even more compelling is its dividend has a payout ratio of a mere 46%, highlighting its sustainability. The dividend also boasts a five-year compound annual growth rate of 2%, above the annual average inflation rate for the same period.

The Bank of Montreal's strong domestic presence coupled with the growth offered by its foray into the U.S. banking market, will see its revenue and bottom line continue to grow further supporting dividend sustainability and the likelihood of further dividend hikes.

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A wide economic moat makes this utility company a must-have investment

Energy utilities may not be in the most exciting industry, certainly lacking the glamour of the energy patch, but they offer investors financial certainty with energy, notably electricity, a key driver of our modern lives. This makes Canada's largest investor-owned energy utility **Fortis** (TSX: FTS) a must-have investment in any long-term buy-and-hold income focused share portfolio.

Not only does it pay a dividend with a tasty yield of 4%, but also has a payout ratio of 67% highlighting the sustainability of its dividend. But more importantly its dividend continues to grow with a compound annual growth rate of 6% since inception (1995),which is triple the annual average inflation rate for the same period.

However, more importantly for investors Fortis operates in an industry that has high barriers to entry. This reduces the level of competition, which when coupled with the relatively inelastic demand for electricity virtually guarantees its revenue streams leaving it well positioned to continue rewarding investors through regular dividend hikes.

CATEGORY

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2. TSX:BMO (Bank Of Montreal)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:FTS (Fortis Inc.)

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