3 Dividend Champions Yielding 3% or More for Dividend-Hungry Investors

Description

With dividends making up over a third of the total returns generated by the S&P TSX Composite Index since 1956, they represent a massive chunk of market returns that are too big for investors to ignore. This makes dividend stocks an important ingredient in every portfolio.

Now what?

The secret to successful dividend investing is not only targeting stocks with high yields, but identifying those dividends that are sustainable and will continue to grow. Companies that have this capacity typically have a long dividend-payment history and wide economic moats that protect their competitive advantage. They also provide goods and services that remain in demand regardless of the state of the economy.

Let's take a closer look at three companies that I believe should be a cornerstone holding in every portfolio.

One long-time favourite is midstream energy company **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

The barriers to entry to the midstream industry are particularly steep, with a tremendous capital investment required, along with a range of significant regulatory hurdles. This gives Enbridge a wide, multifaceted economic moat that, in conjunction with its tollbooth business model, allows it to continue growing earnings.

These characteristics have made its business particularly resilient to the impact of the oil rout.

As a result, Enbridge has been able to reward investors by paying an annual dividend since 1953 that it has hiked for the last 20 consecutive years to give it a 3% yield.

Another dividend champion that has been on my radar for some time is electric utility **Fortis Inc.** (TSX:FTS). It has a sustainable yield of 3.5% and has paid an annual dividend since 1972, and hiked that dividend almost every year since then.

These regular dividend hikes, along with Fortis' ability to consistently grow earnings, can be attributed to its wide economic moat and the inelastic demand for electricity. Both of these attributes protect its competitive advantage and help to maintain earnings growth.

My final choice is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). It possesses a wide economic moat because banking is heavily regulated and requires significant amounts of capital to commence operations.

It has paid a dividend in its current form since 1969 and hiked that dividend for the last five years straight on the back of strong earnings growth, giving it a sustainable yield of 3.7%.

Furthermore, it has better growth prospects than many of its Canadian peers because of its substantial U.S. operations. It is now rated as a top 10 U.S. bank. With the U.S. economic recovery in full swing, Toronto-Dominion is well positioned to benefit from this and a stronger U.S. dollar. This bodes well for further earnings growth and dividend hikes.

So what?

All three companies have a long history of making regular dividend payments and hiking dividends. This can be attributed to their wide economic moats and abilities to grow their earnings over the long term. For these reasons, I believe they should be cornerstone holdings in every investors' portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)
4. TSX:FTS (Fortis Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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