Income Investors: the Top 5 Dividend-Growth Stocks in Canada

Description

When I try to sell investors on the benefits of dividend-growth investing, I like to point to the example of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB).

If you had bought 100 shares of Enbridge at the start of 1995 and never purchased another share, today—thanks to stock splits—you would have 800 shares. What's more, your purchase would be spinning out $1,500 in annual dividend income, representing a yield on your original investment of nearly 50%.

As regular readers know, I'm a big fan of dividend-growth investing. That's because it puts more money in your pocket. And with many employers phasing out pensions, a portfolio of dividend-growth stocks can provide safe retirement income that should keep up with inflation.

Distribution hikes also send a strong signal of confidence in a company's future. After all, no management team wants to hike its dividend only to discover that "Oh crap, we shouldn't have done that." That would damage a board's credibly.

However, this leaves one obvious question: How do you know if a company is going to increase its payout? My method—look at firms that already have a strong growth track record.

Of course, the past is not a perfect predictor of future results. However, if a company has a history of regular distribution hikes, then clearly management is committed to rewarding shareholders.

So, with that in mind, I've assembled a list of Canada's top five dividend-growth stocks. These firms were ranked by the number of consecutive annual distribution hikes. And to emphasize how lucrative dividend-growth investing is, I have also included what your yield on cost would be if you had owned these stocks for the past 20 years.

Stock	**20-Year Yield on Cost**	**Years of Dividend Increases**
Fortis Inc.	40.4%	42

Canadian Utilities Ltd.	–	42
Canadian Western Bank	41.8%	23
Atco Ltd.	64.9%	21
Empire Company Limited	31.5%	20

Source: Google Finance

As you can see above, every company on this list has hiked its payout each year for at least two decades. These companies include banks, utilities, and grocery stores. Clearly, being in a boring, stodgy industry is conducive to dividend growth.

However, the real story here is what small dividend hikes compounded over time can do to a stock's yield. Take a look at **Fortis Inc.** (TSX:FTS), for example. If you had purchased this stock 20 years ago and reinvested all of your dividends, the yield on your original investment would be over 40% today!

Atco Ltd. (TSX:ACO.X) is even more impressive. If you had invested $100,000 in the company back in 1995 and used your distributions to buy more shares, right now you would be earning more than $60,000 in annual income. That's more than enough to fund a comfortable retirement.

All of this goes to show what dividend growth can do for your portfolio. Don't ignore a stock just because it might represent a puny income stream today. Given enough time, even a dividend trickle can become a raging river of cash flow.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ACO.X (ATCO Ltd.)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:CWB (Canadian Western Bank)
5. TSX:EMP.A (Empire Company Limited)
6. TSX:ENB (Enbridge Inc.)
7. TSX:FTS (Fortis Inc.)

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