Top Dividend-Growth Stocks for Today

Description

Since one-third of returns comes from dividends versus price appreciation, having dividend stocks in a portfolio helps to increase returns. Moreover, regular dividends help you psychologically with the bumpy ride of holding stocks.

A stock that increases its dividends faster than inflation is even better. It helps you maintain your purchasing power. Here are two top dividend-growth stocks for your consideration.

Trusty Canadian banks

In Canada, the first quality stocks to think of buying for dividends are Canadian banks. Out of the top five banks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) yields the highest with a yield of 4.7% at about $59 per share.

Bank of Nova Scotia has paid increasing dividends for five years in a row. The average increase was 7.4%, which is roughly double the rate of inflation.

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Its dividend-growth history is relatively short because it froze the dividend during the last recession. The other Canadian big banks also acted in a similar fashion.

Comparatively, U.S. banks had to slash their dividends during that time. So, I think the dividend freeze shows how strong Canada's big banks are. Bank of Nova Scotia typically increased dividends every year before that dividend freeze period.

If you want a slightly higher dividend, you can consider **National Bank of Canada** (TSX:NA), Canada's sixth-largest bank. At about $43, it yields 5%.

Energy infrastructure company

Along with anything related to commodities, energy infrastructure companies have also retreated in price and have greatly underperformed the market this year. As a result, they also pay higher starting yields.

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is one of the highest-quality energy infrastructure leaders in North America. It has an S&P credit rating of A-. At under $42, it yields 5%.

It runs a low-risk business model. About 90% of its earnings before interest, tax, depreciation and amortization come from regulated assets or long-term assets.

Its low-risk model is one reason why TransCanada has been able to increase its dividend for 14 years in a row. In fact, the business forecasts dividend growth of 8-10% per year on average through 2020.

Based on that dividend-growth guidance, if you bought TransCanada today, your yield of 5% would grow to a yield on cost of 7.3% to 8% by 2020.

In conclusion

If you’re looking for relatively high yields, you want to buy quality dividends that are relatively cheap. Right now, these companies are trading at a discount of at least 10% from historical levels. So, your starting yield is around 5% and growing 7-10% a year.

Investors should understand that the reason these companies are selling at discounts, especially TransCanada, is because the outlook for resources remains grim in the near to medium term.

So, don’t expect these names to appreciate in price substantially anytime soon. However, their yields are safe and should continue to grow.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TRP (Tc Energy)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:NA (National Bank of Canada)
5. TSX:TRP (TC Energy Corporation)

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