Canada's Top 2 Dividend-Growth Stocks

Description

It's no coincidence that the top two Canadian dividend-growth stocks are utilities. Both **Canadian Utilities Limited** (TSX:CU) and **Fortis Inc.** (TSX:FTS) have increased their dividends for more than 40 years–the longest dividend-growth streak for any publicly traded company in Canada!

These utilities tend to generate stable earnings and cash flows because they provide necessarily products and services that must be used whether the economy is doing well or not.

The businesses

Canadian Utilities is involved with power generation, electricity distribution, natural gas transmission, natural gas liquids storage and processing, and industrial water solutions. In 2015 the utility generated more than $3.2 billion of revenue with its assets of $18 billion.

Fortis is predominantly a regulated utility that delivers electricity to two million customers and 1.2 million gas customers. The utility consists of nine companies with operations in Canada, the United States, and the Caribbean. In 2015 Fortis generated $6.7 billion of revenue with its assets of $28.8 billion.

Fortis has had a successful history of acquiring and integrating enterprises. Most recently, it decided to acquire **ITC Holdings,** which is expected to close by late this year. ITC is a high-quality, pure-play, regulated electric transmission utility that will be 5% accretive to Fortis's earnings per share in its first full year of contribution.

Dividend

At about $35, Canadian Utilities yields 3.7% with a quarterly dividend of 32.5 cents per share, equating to an annual payout of $1.30 per share. Its payout ratio is 71% based on its 2015 earnings.

At under $40, Fortis yields 3.8% with a quarterly dividend of 37.5 cents per share, equating to an annual payout of $1.50 per share. Its payout ratio is coincidentally the same as Canadian Utilities’s at 71%.

Going forward

Canadian Utilities’s last five dividend hikes in the past five years have been 10% including this year’s increase. The utility has not provided a dividend-growth guidance, but dividend growth of 7-10% next year is a reasonable estimate.

From this year to 2020, Fortis has a $9 billion capital program (averaging $1.8 billion of investments per year) to drive growth. In fact, the company is so confident about its steady growth that it gave guidance to increase its dividend 6% per year on average through 2020.

Conclusion

Quality doesn’t come cheap. Canadian Utilities is trading at 18.8 times its earnings, and Fortis is trading at 18.5 times its earnings. However, their dividend yields of about 3.7% are safe.

Income investors who are not concerned about total returns should consider the shares for safe income; total-return investors should consider the quality dividend stocks on dips of 7-10%.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:FTS (Fortis Inc.)

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