2 High-Quality Stocks to Buy for Dividend Growth

Description

Investing in dividend-paying stocks that raise their payouts every year is a great way to generate sizable returns over the long term.

Let's take a closer look at why **Algonquin Power & Utilities Corp.** (TSX:AQN) and **Empire Company Limited** (TSX:EMP.A) would make great additions to your portfolio today.

Algonquin Power & Utilities Corp.

Algonquin Power & Utilities Corp., or APUC for short, is the parent company of Algonquin Power Company and Liberty Utilities. Algonquin Power Company has ownership interests in 33 wind, solar, hydroelectric, and thermal power-generation facilities across Canada and the United States, and Liberty Utilities provides water, electricity, and gas utility services to over 560,000 customers in 11 U.S. states.

APUC is also in the process of acquiring **Empire District Electric Co.**, which is an electric, natural gas, and water utility company serving approximately 218,000 customers in four U.S. states.

APUC currently pays a quarterly dividend of US$0.1059 per share, representing US$0.4235 per share on an annualized basis, giving its stock a bountiful 4.7% yield today.

Its dividend is easily confirmed as being safe when you check its operating cash flow. In the first half of 2016 APUC's adjusted funds from operations (AFFO) totaled $199.4 million ($0.74 per share), and its dividend payments totaled just $72.2 million ($0.2648 per share), resulting in a very conservative 36.2% payout ratio.

In addition to having a high and safe yield, APUC has a track record of dividend growth. It has raised its annual dividend payment for five consecutive years, and its recent hikes have it on pace for 2016 to mark the sixth consecutive year with an increase.

APUC also has a long-term dividend-growth target of 10% annually, and I think its strong financial performance, including its 27.7% year-over-year increase in AFFO to $199.4 million in the first half of 2016, and its acquisition of Empire District Electric, which is expected to close in early 2017 and immediately be accretive to its cash flow, will allow it to achieve this target for the next decade at least.

All in all, APUC has a high and safe yield, a track record of growing its dividend, and a dividend-growth program in place with the ability to achieve growth for many years to come, making it one of the best dividend stocks for long-term investors.

Empire Company Limited

Empire is one of Canada's leading food retailers through its wholly owned subsidiary Sobeys Inc. As of August 6, Sobeys Inc. owns, affiliates, or franchises more than 1,500 stores across every province under retail banners that include Sobeys, Safeway, IGA, Foodland, and FreshCo.

It also holds a 41.5% ownership stake in **Crombie Real Estate Investment Trust**, which is one of Canada's largest REITs with a portfolio of 283 retail and office properties, comprising of approximately 19.4 million square feet located across 36 major markets.

Empire currently pays a quarterly dividend of $0.1025 per share, representing $0.41 per share on an annualized basis, giving its stock a yield of about 2.1% today.

It may not seem completely necessary to confirm the safety of a 2.1% yield, but I think investors should always do so anyways. With this being said, Empire's dividend is easily supported by its cash flow. In the first quarter of fiscal 2017, its free cash flow totaled $455.6 million, and its dividend payments totaled just $27.8 million, resulting in a minuscule 6.1% payout ratio.

Even though Empire's yield is safe, you still may not be sold on it being a great dividend stock since it yields less than 3%, so let's get down to what really matters: dividend growth. It has raised its annual dividend payment for 21 consecutive fiscal years, including a compound annual growth rate of 7.9% from fiscal 2007 to 2016, and its 2.5% hike in June has it on pace for fiscal 2017 to mark the 22nd consecutive year with an increase.

I think Empire's strong free cash flow generation, including its 109.5% year-over-year increase to $455.6 million in the first quarter of 2017, and its very low payout ratio will allow its streak of annual dividend increases to continue for decades, making it one of the market's best dividend-growth opportunities today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:EMP.A (Empire Company Limited)

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