Retirees: 2 Top Dividend-Growth Stocks to Help Supplement Pension Income

Description

Canadian seniors used to rely on GICs and savings accounts to provide additional income.

Unfortunately, low rates have wiped out those options, and it doesn't look like things are going to get better anytime soon. As a result, retirees are turning to dividend stocks to meet their yield needs.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why they might be attractive picks.

Enbridge

Enbridge is a pipeline giant, and it is about to get even bigger.

The company recently announced plans to purchase **Spectra Energy** for $37 billion in a deal that will add 34,000 km of natural gas pipelines and ramp up Enbridge's development portfolio to a staggering $74 billion.

The strong project backlog is important because the current rout in the oil sector is slowing demand for new infrastructure as oil and gas companies cut back on development expenditures.

Public opposition to new pipelines is also putting pressure on Enbridge. The company's large Northern Gateway project has been plagued by setbacks, and the likelihood of the project moving forward in the near term is pretty much nil.

Northern Gateway might be stuck in the mud, but Enbridge has $26 billion in commercially secured, smaller projects that will be completed in the next few years. As a result, revenue and cash flow should increase at a healthy rate, and Enbridge says it expects to raise the dividend by 15% in 2017 and 10-12% annually through 2024.

The current distribution already provides a yield of 3.7%, so new investors are looking at some decent returns in the coming years.

Royal Bank

Royal Bank earned nearly $10 billion in profit last year and is on track to blow through the target in 2016. That’s pretty impressive given the challenges facing the banking sector.

Royal Bank’s secret to success lies in its diversified revenue stream.

The company relies heavily on its Canadian personal and commercial banking activities, but it also gets strong contributions from wealth management, capital markets, and insurance operations.

Moving forward, investors should see significant revenue coming out of a new division in the United States.

What’s the scoop?

Royal Bank recently spent US$5 billion to purchase City National, a California-based commercial and private bank that caters to high-net-worth clients.

The deal gives Royal Bank a strong platform to expand its reach in the segment, and investors could see further acquisitions in the coming years.

On the risk side of the stock, some investors are worried the banks could get hammered by oil loans and Canadian housing exposure.

Royal Bank’s direct exposure to oil and gas companies is only about 2% of the total loan portfolio, so there isn’t much concern on that front. Regarding housing, the mortgage portfolio is balanced well between insured and uninsured loans, and the loan-to-value ratio on the uninsured portion is low enough that house prices would have to fall significantly before the bank takes a big hit.

Royal Bank raises its dividend on a regular basis and currently offers a 4% yield.

Is one a better bet?

Both stocks are attractive income picks. At the moment, I would go with Enbridge as my first pick because its dividend-growth rate over the medium term is likely to be higher than Royal Bank’s.

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1. NYSE:ENB (Enbridge Inc.)

2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
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aswalker