2 Stocks With Yields of 3-5% to Buy for Dividend Growth

Description

History has shown that buying and holding a portfolio of dividend stocks is a great way to build wealth over the long term, and this strategy is most successful when you own stocks that raise their dividends every year.

With this in mind, let's take a closer look at why **Genworth MI Canada Inc.** (TSX:MIC) and **Keyera Corp.** (TSX:KEY) would make great additions to your portfolio today.

Genworth MI Canada Inc.

Genworth, through its subsidiary, Genworth Financial Mortgage Insurance Company Canada, is Canada's largest private residential mortgage insurer. It provides mortgage default insurance to residential mortgage lenders, which makes home ownership more affordable and accessible to Canadians.

Genworth currently pays a quarterly dividend of $0.42 per share, representing $1.68 per share on an annualized basis, and this gives its stock a lavish 4.9% yield at today's levels.

It's very important to always confirm the safety of a stock's dividend before investing, and you can do this with Genworth by checking its dividends paid as a percentage of its net operating income (NOI). In the first half of 2016, its NOI totaled $190 million ($2.07 per share), and its dividend payments totaled just $77 million ($0.84 per share), resulting in a 40.5% payout ratio, which is within its target range of 35-45%.

Genworth also has a track record of dividend growth. It has raised its annual dividend payment every year since its initial public offering in 2009, resulting in six consecutive years of increases, and its 7.7% hike in October 2015 has it on pace for 2016 to mark the seventh consecutive year with an increase.

As mentioned previously, Genworth has a target payout range of 35-45% of its NOI, so I think its consistent growth, including its 2.5% year-over-year increase to $2.07 per share in the first half of2016, will allow its streak of annual dividend increases to continue in 2017 and beyond, making it anideal investment option for long-term investors.

Keyera Corp.

Keyera is one of Canada's largest midstream energy companies, providing essential services to oil and gas producers in the Western Canadian Sedimentary Basin. Its predominantly fee-for-service-based business consists of services such as natural gas gathering and processing, natural gas liquids fractionation, transportation, storage, and marketing, and iso-octane production and sales.

Keyera currently pays a monthly dividend of $0.1325 per share, representing $1.59 per share on an annualized basis, which gives its stock a very generous 3.8% yield today.

As mentioned before, it's very important to confirm the safety of a stock's dividend before investing, and this is very easy to do with Keyera, because it provides a cash flow metric called "distributable cash flow (DCF)" in its earnings reports. In the first half of 2016, its DCF totaled $254.13 million ($1.45 per share), and its dividend payments totaled just $132.1 million ($0.75 per share), resulting in a conservative 52% payout ratio.

Like Genworth MI Canada, Keyera has a track record of growing its dividend. It has raised its annual dividend payment for five consecutive years, and its recent hikes, including its 6% hike in August, have it on pace for 2016 to mark the sixth consecutive year with an increase.

I think Keyera's consistently strong DCF growth, including its 5.8% year-over-year increase to $1.45 per share in the first half of 2016, and its $1.4 billion worth of projects that are currently under development, which will be commissioned through 2018 and immediately be accretive to its DCF, will allow its streak of annual dividend increases to continue through 2020 at least, making it one of the best long-term investment options in the energy sector today.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)

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