Income Investors: Do You Own Canada's Top 5 Dividend-Growth Stocks?

Description

There's a simple secret that millions of Canadian investors have already discovered. Dividend-growth investing is a really good way to get rich.

According to a 2015 study by Manulife Asset Management, stocks that consistently grew their dividends returned an average of 10.1% annually between 1974 and 2014. Compare that to non-dividend payers, which returned a paltry 2.6% each year, and then dividend cutters or eliminators, which only delivered gains of 0.1% annually.

Dividend growers didn't just outperform — they did so with considerably less volatility than other categories of stocks. It looks as if the old adage really is true. Dividend-growth investors aren't very concerned with share prices at all.

There's a simple way to get those kinds of returns for your own portfolio. All you need to do is load up on Canada's best dividend growers and hold them for a very long time.

And that's it. I told you it was easy.

Here are five of Canada's best dividend-growth stocks — the kinds of companies that can make the foundation of any portfolio.

Fortis

Fortis Inc. (TSX:FTS)(NYSE:FTS) has raised its annual dividend each year since 1972. That's the longest such streak among Canadian publicly traded companies.

The company owns assets all across Canada and the United States and is constantly looking for more acquisitions. It bought CH Energy Group in New York State in 2012, UNS Energy in Arizona in 2013, and ITC Holdings Corp. in 2016, which is the largest independent transmission utility in the United States. These U.S. acquisitions look very good as long as the Canadian dollar stays depressed.

Fortis shares currently yield 3.9% — an excellent payout in today's world.

Canadian Utilities

Fortis is Canada's dividend-growth champion, but **Canadian Utilities Limited** (TSX:CU) isn't far behind. It first hiked its dividend in 1973.

The company has made a real effort to grow earnings from regulated sources, which will lead to a more consistent bottom line in the future. In 2011 just over half of earnings came from regulated sources. In 2016, that number was 95%.

Canadian Utilities didn't waste time announcing a dividend increase for 2017; it's already announced a 10% dividend increase. The company expects earnings to increase nicely this year as some of its much-anticipated growth projects start hitting the bottom line.

Empire Company

It isn't often investors get the chance to pick up a dividend-growth superstar on sale, but that's exactly the situation facing **Empire Company Limited** (TSX:EMP.A) today.

Shares have fallen some 50% off 2014 highs as the company struggles with its western Canadian exposure. The problems were bad enough that the company axed its CEO and brought in a new manager.

But dividend growth continues to be there. The company has upped its payout each year since 1997 — a 20-year streak. And with a payout ratio of just 43% of projected 2017 earnings, look for the streak to continue, even through these bad times.

Canadian Western Bank

Although it can't boast the kind of consecutive dividend increases as the previous stocks — thanks to management freezing the dividend in 2009-10 — **Canadian Western Bank** (TSX:CWB) is still an impressive dividend grower.

In 1999, shares paid an annual dividend of 8.2 cents. These days, that number is 92 cents. That is some impressive growth. The current dividend yield is 3%.

Now that it appears Alberta's economy is back on track, look for the company to go back into expansion mode.

Transcontinental

Transcontinental Inc. (TSX:TCL.A) has quietly become one of Canada's best dividend growers. It has increased its payout for 15 consecutive years, growing it from 3.5 cents per share each quarter to today's level of 18.5 cents quarterly.

Canada’s largest commercial printer has been a consistent grower primarily through a number of acquisitions. It has also done a nice job cutting costs by closing excess capacity.

Transcontinental earned $1.88 per share over the last 12 months while paying out $0.74. That’s a payout ratio of just 39%, which is pretty low for a stock that yields 3.3%.

The bottom line

Investing doesn’t need to be hard. We just need to load up on terrific dividend payers, sit on our butts for about 20 years, and reap the rewards. It might seem counter-intuitive, but it works.

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2. TSX:CU (Canadian Utilities Limited)
3. TSX:CWB (Canadian Western Bank)
4. TSX:EMP.A (Empire Company Limited)
5. TSX:FTS (Fortis Inc.)
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