2 Proven Dividend-Growth Kings I'd Buy Today

Description

Investing in dividend-growth stocks is one of the most powerful and time-proven strategies to build wealth. With this in mind, let's take a closer look at two dividend-growth kings that you could add to your portfolio today.

TransCanada Corporation

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is one of North America's largest owners and operators of energy infrastructure, including natural gas and liquids pipelines, power-generation facilities, and natural gas storage facilities.

It currently pays a quarterly dividend of $0.625 per share, representing $2.50 per share on an annualized basis, which gives its stock a beautiful 4% yield at today's levels.

It's of the utmost importance to always confirm the safety of a stock's dividend before making an investment, and this is very easy to do with TransCanada, because it provides a cash flow metric called "distributable cash flow (DCF)" in its earnings releases. In its fiscal year ended on December 31, 2016, its comparable DCF totaled $3.67 billion ($4.83 per share), and its common share dividend payments totaled just $1.44 billion ($2.26 per share), resulting in a prudent 39.2% payout ratio.

A high and safe yield is great, but what we care more about is dividend growth, and TransCanada is one of the best dividend growers in the market today. It has raised its annual dividend payment for 16 consecutive years, including a compound annual growth rate of about 7% from 2000 to 2016, and its 10.6% hike in February has it positioned for 2017 to mark the 17th consecutive year with an increase.

TransCanada's dividend growth will continue in the years ahead as well, because it has a program in place to do so. It expects to grow its dividend at the upper end of an 8-10% range through 2020, and I think its continued growth of comparable DCF, including its 2.9% year-over-year increase to $3.67 billion in 2016, will allow it to achieve this target and extend it into the late 2020s.

Canadian National Railway Company

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), or CN for short, is one of the largest rail network operators in North America. It owns and operates approximately 20,000 route miles of track that spans Canada and mid-America.

CN currently pays a quarterly dividend of $0.4125 per share, representing $1.65 per share on an annualized basis, and this gives its stock a yield of about 1.7% today.

It may not seem completely necessary to confirm the safety of a yield under 3%, but I think investors should always do so anyways, and you can do this with CN by checking its dividend payments as a percentage of its net earnings. In its fiscal year ended on December 31, 2016, its adjusted net earnings totaled $3.58 billion ($4.59 per share), and its dividend payments totaled just $1.16 billion ($1.50 per share), resulting in a 32.4% payout ratio, which is just under its payout target of 35%.

You may still not be impressed by CN’s dividend, so let’s get down to what really matters: dividend growth. It has raised its annual dividend payment every year since 1996, resulting in 20 consecutive years of increases, and its 10% hike in January has it on pace for 2017 to mark the 21st consecutive year with an increase.

I think investors can count on CN for dividend growth going forward too. As mentioned before, it has a dividend-payout target of 35% of its net earnings, so I think its continued growth, including its 18.1% year-over-year increase to an adjusted $4.44 per share in 2015, and its 3.4% year-over-year increase to an adjusted $4.59 per share in 2016, will allow its streak of annual dividend increases to continue for another decade at least.

Which should you buy today?

TransCanada and Canadian National Railway are two of the best dividend-growth stocks around, so take a closer look at each and strongly consider making at least one of them a core holding today.

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