Income Investors: These Dividend Stocks Are Poised to Hike Payouts

Description

If you're an income investor, finding stocks with high probabilities of divided growth should be the most important factor in your investment strategy.

The reason is simple: if you don't get growth in your dividend payouts, you're actually reducing the value of your retirement income when you take inflation into account.

If you've bought companies which pay regular dividends and increase them over time to beat inflation, they provide the best combination one can dream of. And if you re-invest those dividends back into the company, your portfolio will multiply at a much faster pace by the power of compounding.

There are certain traits which allow companies to produce above-average cash to distribute among shareholders, and they do it at a much lower cost than their competition. Warren Buffett, the world's most successful income investor, looks for similar strengths while picking his investments.

Let's discuss a few companies in the Canadian market that are most likely to grow their dividend payouts in years to come because of their stable revenue, superior rate of return, manageable payout ratios, and their ability to ward off competition.

Canadian utilities

The first names that fit into this category are utilities, which serve millions of Canadians. After building a world-class distribution system, Canadian utilities are in a unique position to grow and capture more market share in North America and abroad.

Fortis Inc. (TSX:FTS)(NYSE:FTS) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are some of the best dividend-growth stocks available in our market.

Both companies have made their intentions about future dividend increases public, and I don't see any reason why they shouldn't be able to fulfill their promises.

Fortis, with a 3.59% dividend yield, expects about 6% growth in its annual dividend payouts through

2021. Serving 3.2 million customers in Canada and abroad, Fortis generates strong cash flows, while its payout ratio remains manageable at 66%.

The same goes for Enbridge, which dominates the crude shipment market in North America. Yielding 4.63% based on its today's price, Enbridge has over 20 years of history of increasing dividends. The company plans to continue with this practice, targeting 10-12% annualized growth in dividends through 2024.

Banking stocks

Next are Canadian banks, which operate in a highly regulated and profitable environment, where it's tough for new entrants to enter the market and challenge their dominance.

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are my favourite picks in this segment because of their solid histories of dividend growth.

RBC, with a dividend yield of 3.66%, pays a quarterly dividend of $0.87 per share. Its dividend-payout ratio of 40-50% puts it in a comfortable position to continue increasing dividends each year.

Bank of Nova Scotia has a similar impressive history of hiking its dividend. In the past five years, its dividend has grown 33% to a quarterly payment of $0.76 a share. With a 3.87% annualized dividend, Bank of Nova Scotia is well positioned to reward its investors with higher dividends.

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2. NYSE:ENB (Enbridge Inc.)
3. NYSE:FTS (Fortis Inc.)
4. NYSE:RY (Royal Bank of Canada)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:ENB (Enbridge Inc.)
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