TFSA Income Investors: Worried About Higher Interest Rates Hurting Long-Term Dividend Growth? Buy This High-Yield Stock

Description

Interest rates are on an upward trajectory, and if the tensions caused by the U.S. and North Korea don't get in the way, it's likely that both the Canadian and U.S. economies will get a much-needed boost once Trump's pro-growth agenda is implemented.

That means rates are going to continue to go up at a rapid rate over the course of the next few years, and for income investors who rely on the monthly payments from utilities, REITs, or telecoms, that's bad news for future dividend growth. These high-yielding industries have benefited from low interest rates for long enough. Going forward, it's likely that further growth will be more modest than we've grown to expect.

Consider the Canadian telecom industry. It's a very capital-intensive industry; going forward, it's expected that more spending is going to be necessary to remain competitive. That means more borrowing at higher rates over the next few years, which is less cash returned to the pockets of shareholders.

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Although rising interest rates are a negative for the utility, telecom, or REIT industries, many retirees and income investors rely on the safety provided by businesses within these industries, and it can be a challenge to find a stock in a different sector that offers such a high degree of safety to go with a high yield. Fortunately for income investors, there are a few outliers within these industries that will continue to grow their dividends extremely fast, regardless of the direction interest rates are heading.

I believe **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) is one of these businesses that will be firing on all cylinders, and its momentum will not be stopped just because interest rates are heading up. For investors seeking a high yield, long-term dividend growth, and stability, Algonquin really is a very attractive candidate for income investors who want top-notch results, even as industry-wide headwinds mount.

The company has a very attractive 4.56% yield, and the dividend has been growing by a generous amount on a consistent basis of late. In terms of stability, Algonquin has some of the most unique and safest assets out there. What kind of unique assets? Water utilities — one of the most stable utilities that anyone could ask for. Algonquin is one of the few ways to get exposure to water utilities on the TSX.

Algonquin is going to continue to put its foot the pedal when it comes to growth. The company recently acquired Empire District Electric Company, which opens the door to more growth opportunities in the Mid-Western U.S. Algonquin isn't your typical boring utility; it's growing fast and will continue to be a high-yielding, stable growth play for many years to come.

Shares currently trade a hefty premium with its 36.75 price-to-earnings multiple. Although expensive, prudent income investors would be wise to pick up shares on any significant dips, which may happen in the coming months.

Sure, interest rates are going up, but that doesn’t mean you won’t have capital appreciation, a high yield, and long-term dividend growth.

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