2 Dividend-Growth Stocks for Your Retirement Income

Description

Investing in companies that regularly increase their dividends is a tested strategy to grow your retirement income. Dividend-growth stocks not only beat the market, but they also provide a good hedge against inflation.

The reason is simple: as you get more income from your investment, you re-purchase a greater number of shares, and the impact of compounding is also more powerful.

Here are the two top dividend-growth stocks from Canada's energy and transportation sectors that retirees should consider adding in their portfolios.

TransCanada

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is a great dividend-growth stock. The reason is that the company runs very profitable business of natural gas and liquids pipelines, power-generation, and gas-storage facilities.

These businesses produce hefty cash flows, which TransCanada distributes among its shareholders. It has increased its dividend payout for 17 consecutive years — a track record that's tough to match.

What makes TransCanada a solid investment for long-term growth for your retirement income is the company's financial strength and diversified high-quality assets, which provide good potential for future dividend growth.

The company is undertaking $24 billion of near-term growth projects, which the management says will support annual dividend growth at the upper end of 8-10% through 2020. Since 2000, the company has provided a total return close to 14% per annum.

With an annual dividend yield of 4%, TransCanada pays $0.48 quarterly dividend. The stock is currently trading at ~$62 a share — almost at the same level where it started this year.

Canadian National Railway Company

My second pick is **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) stock, another Canadian gem which has rewarded its investors with sustained growth in dividends.

CNR pays $0.4125 quarterly dividend, which is 10% higher when compared to the same period last year. Over the past five years, CNR's annual dividend distribution has doubled to $1.5 a share — a great incentive for its investors, who also benefit from explosive growth in CNR's share value.

CNR stock was able to provide this excellent growth due to its unique business model. The company runs a 100-year-old railway business and has a strong leadership position in the transportation sector.

The best companies for long-term income investors are those that operate in duopolies, because they command pricing power after creating a strong economic moat that stops competition from challenging their dominance. The Canadian rail industry is a quintessential duopoly, dominated by CNR and **Canadian Pacific Railway Limited**.

The current environment of strong growth both in Canada and the U.S. bodes well for transportation stocks, and I think CNR stands to benefit from the momentum immensely.

Which one is better?

I think both stocks provide a great value to investors looking to beef up their retirement portfolios with some solid Canadian names. In the current environment, when it's very tough to get double-digit returns from other investments, these dividend-growth stocks are your best bet to get a secure and regular income stream.

CATEGORY

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2. NYSE:TRP (Tc Energy)
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