TFSA Investors: These Stocks Just Raised Their Dividends. Should You Buy?

Description

Stocks that hike their dividends are the best candidates for your Tax-Free Saving Account (TFSA).

As you slowly build your TFSA income portfolio, you should hunt for stocks that are in good positions to reward you with regular hikes in their payouts.

These companies will help you to grow your investments quickly and save your portfolio from the impact of inflation. With this theme in mind, I have picked two companies that have just announced massive increases in their dividends. Let us see if these names fit with your investment style.

Canadian Tire

Canadian Tire Corporation Limited (TSX:CTC.A), while announcing its third-quarter earnings in November, hiked its dividend by a whopping 38% to $3.60 per share on annual basis.

This hike means investors will be getting $0.9 a share quarterly dividend on March 1 — a gain of 25% from what they are getting now.

The company has a consistent record of increasing its annual dividend and has historically targeted a payout ratio of 25-30% of its earnings.

After this hike, Canadian Tire is now targeting a 30-40% payout ratio of its normalized earnings. This is very manageable payout ratio and leaves a lot of room for future increases.

The brick-and-mortar retailer has been able to reward its investors, as it successfully transforms its business to cope with the changing market conditions. This success was evident from the company's third-quarter earnings, which show both revenue and net profit rising in the range of 5-6%.

Investors in Canadian Tire shares have not only earned higher dividend income from this top retailer during the past five years, but their capital has also swelled.

In the past five years, Canadian Tire's share price has surged 133% to $163.08 a share at the time of writing, and its quarterly dividend has more than doubled.

For your TFSA, Canadian Tire could be a great addition, offering stable dividend income and capital gains.

Equitable Group

Equitable Group Inc. (TSX:EQB) is another company that hiked its dividend this month, declaring a 14% jump in its payout to $0.25 per common share, payable on January 4, 2018, to common shareholders.

The company, which owns the non-bank mortgage lender Equitable Bank, has been benefiting from strong mortgage demand this year.

In the first nine months, its net income surged 24% to $120.2 million, as mortgages under management rose 14% to $23 billion compared to $20 billion a year ago.

This dividend hike and Equitable Group's strong share performance suggest that the company has been successful in overcoming the liquidity crisis, which hit alternative lenders after the problems at **Home Capital Group Inc**. scared investors this spring.

During the second quarter, Equitable Group obtained a $2 billion secured backstop funding facility from a syndicate of six of Canada's largest banks and insured an $892 million portfolio of existing residential mortgages to protect the bank during a period of funding market volatility.

Although these initiatives moderated EPS growth, they reduced Equitable Group's risk profile and contributed to its long-term stability.

Which stock is better for TFSA investors?

I think both of these companies are well positioned to tackle the unique challenges they are facing in their respective industries. If you are looking to add dividend-growth stocks to your TFSA portfolio, you might consider adding these two names.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:EQB (EQB)

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