2 Stocks That Are Poised to Raise Their Dividends by up to 10%

Description

In a market which has shown a no signs of life this year, many Canadian investors are wondering what the best strategy is to grow their capital. For long-term investors, nothing is better than investing in stocks that grow their dividends regularly.

Companies that steadily raise their dividends usually maintain low debt levels, which helps them increase free cash flows, meaning more dividends for their investors. Dividend-growth stocks not only raise your income regularly, but they also help your portfolio to grow faster, as you re-invest your profit to buy more shares, unleashing the power of compounding.

Let's have a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) to see if they are good candidates to earn growing dividends.

CN Rail

For long-term investors, CN Rail is a great dividend-growth stock to buy. This transportation giant has a dominant position in North America, running a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico.

Its strong position has allowed the company to pay uninterrupted dividends since going public in the late 1990s. This year, management boosted the quarterly payout by 10% to $0.46 per share, totaling $1.84 annually for a yield of 1.84%. The company has been increasing its dividend with a five-year CAGR of 14%.

The company's yield may look meagre to some investors, but this doesn't tell us the company's true potential. During the past five years, investors have made over 88% in total returns, which includes dividends.

Trading at $99.1, CN Rail stock is down about 5% this year on concerns that the company has capacity constraints to deal with a growing volume of trade. But at the same time, this is a good sign for investors, as the company has enough growth opportunities once it overcomes the capacity challenges.

TransCanada

TransCanada is another dividend-growth stock you can consider, given the company's impressive track record of rewarding investors. The company has hiked dividends for 18 consecutive years.

Calgary-based TransCanada runs a very profitable business of natural gas and liquids pipelines, power generation, and gas-storage facilities. Its natural gas pipeline network currently transports about 25% of North America's demand. These businesses produce hefty cash flows, which TransCanada distributes among its shareholders. It has increased its dividend payout for 18 consecutive years.

The company recently reported strong fourth-quarter earnings and announced a major expansion of its Nova Gas Transmission Line, which moves gas from Alberta and British Columbia to markets all over North America. This expansion will boost basin export capacity by one billion cubic feet per day.

While announcing its fourth-quarter earnings, the company also hiked its dividend by 10.4% to $0.69 per share. With a payout ratio of just over 80% of its comparable earnings, I think its dividend payout has potential for further growth. The company is undertaking $24 billion of near-term growth projects, which management says will support annual dividend growth at the upper end of 8-10% through 2021.

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Date
2025/07/05
Date Created
2018/02/28

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