A Dividend-Growth Stock That's on Sale Today

Description

I love investing in companies that grow their dividends regularly. Companies with histories of rewarding investors with growing payouts have generally investor-friendly policies. Executive at these companies care about their reputations and want loyal income investors who, in return, want stable returns with the modest capital gains.

This approach works very well, especially for savers and retirees, at a time when many employers are phasing out pension plans, and returns from GICs, saving accounts, and government bonds are minimal.

Regular hikes in dividends also tell us about a company's ability to predict its future. It would look very unprofessional and damaging for a management to hike dividends, only to cut them after a couple of quarters.

So, with these benefits in mind, I have picked a Canadian dividend stock that has a lot of potential to return cash to its investors through dividend hikes.

Algonquin Power

Algonquin Power and Utilities Corp. (TSX:AQN)(NYSE:AQN) is an Ontario, Oakville-based, diversified, generation, transmission, and distribution utility. Through its two business groups, the company provides rate-regulated natural gas, water, and electricity services to over 700,000 customers in the U.S.

Through its clean-energy unit, the company runs a portfolio of long-term contracted wind, solar, and hydroelectric generating facilities, managing more than 1,250 MW of installed capacity. It generates about 70% of earnings from regulated utilities and 30% from contracted renewable power.

Algonquin shares have slipped ~9% this year in line with general weakness in utility stocks amid investors' shift to fixed-income assets when bond yields are rising, and central bankers are raising interest rates in North America.

But this dip provides an attractive entry point for long-term investors who like a stock that has a track record of paying dividends. Algonquin plans to hike its annual dividend 10% each year for the next five years. Given the company's solid growth momentum, I don't see any problem for Algonquin to generate enough cash.

Growth through acquisitions

Over the past few years, Algonquin has grown through a very smart acquisition strategy, in which it's bought some high-quality assets from larger U.S. utilities through its wholly owned subsidiary, Liberty Utilities.

In Algonquin's biggest acquisition so far, the company acquired Empire District Electric Co., a regulated electric, gas, and water utility with about 200,000 customers, for US$2.4 billion early last year. In November, Algonquin announced its first deal outside North America, forming a joint venture with Spain's Abengoa SA to develop renewable energy and water infrastructure assets globally.

Trading at $12.70 at the time of writing, Algonquin stock is yielding 4.59%, translating into $0.6-a-share annual dividend. After a recent pullback, the stock is trading at a forward price-to-earnings multiple of 15.87, offering an attractive entry point to investors who are looking to build a stable income portfolio.

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2. Energy Stocks
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