TFSA Investors: 2 Dividend-Growth Stocks Yielding up to 7.2%

Description

Dividend stocks are great for your TFSA, especially ones that are growing and that will net you strong returns in the years to come. While looking for the highest yield may be tempting, it can also be a risky move, because if it gets slashed, then you're left holding an investment that you may have not really wanted in the first place. A safer move is to invest in a stable company that grows its payouts over time.

The two stocks listed below can offer you significant dividend growth over the years, and rising oil prices could even accelerate those increases. While it may be a little risky today, demand for oil is not going away anytime soon, and it's a great time to buy as the industry is still in recovery mode.

Inter Pipeline Ltd. (TSX:IPL) has dropped 17% in price over the past year, and that has pushed its dividend yield up to ~7.2%. Not only does the stock pay a great dividend, but it's also paid out monthly, providing investors with better cash flow than most dividend stocks that have payouts every quarter.

Over the past five years, Inter Pipeline's dividends have increased by 51%, equating to a compounded annual growth rate (CAGR) of 8.6%. At that rate of growth, if it were to continue, dividend payments would double in a little less than eight and a half years.

A big consideration when investing in dividend stocks is whether the company can afford to keep making payments. The metric I prefer to look at when doing this analysis is the percentage of dividends distributed out of free cash flow, which is more reliable than earnings, since it doesn't include non-cash items that are simply not relevant.

In the trailing 12 months, Inter Pipeline has accumulated free cash flow of $650 million, and less than half (46%) of that was paid out to shareholders. This is a very manageable payout and could get even stronger with a rising price of oil.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is a great dividend stock, and with its share price crashing this past year, it's becoming a very tempting buy. Although its payout may not be as high as InterPipeline's, it still pays investors a very attractive dividend of 6.8%. Back in 2013, Enbridge was payinginvestors $0.315 a share and has more than doubled since then, averaging a CAGR of an incredible16.3%.

Investors will likely note that these two dividend stocks actually increased their payouts during the downturn, which makes the level of growth even more impressive. The potential that exists under more bullish conditions should have investors excited about what might lie ahead.

Now, while some investors may be concerned that Enbridge has been generating negative free cash flow over the years, that's been because of significant capital spending and the company's focus on growth and furthering its operations. In this situation, free cash might not be the best option to evaluate the company's level of payouts.

Instead, a look at cash from operations shows us that in the past 12 months, Enbridge's dividend payments have been less than half of the cash that the company generated from its day-to-day operations, and that should provide investors assurance that the company isn't being too aggressive with its payouts.

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