TFSA Income Investors: 3 Dividend Growth Stocks Yielding 5%

Description

Retirees and other Canadian income investors are searching for reliable stocks with growing distributions to hold inside their TFSA portfolios.

Ideally, we want to buy these names when they are out of favour and still generating strong results. Let’s take a look at three companies that might be interesting picks right now.

Power Financial Corp. (TSX:PWF)

Power Financial is a holding company with interests in wealth management and insurance businesses in Canada, as well as a stake in a European holding company that owns positions in some of the continent’s top global businesses.

The stock is down from $37 per share in early November to about $32, despite strong Q1 2018 results. In fact, adjusted net earnings rose 17% compared to the same period in 2017.

Interest rates are moving higher, which tends to benefit the insurance sector, as companies can earn better returns on funds that are set aside to cover potential claims.

Rates also tend to rise during times of strong economic activity, which normally bodes well for wealth management businesses.

Power Financial raised the quarterly dividend by 5% to $0.433 per share earlier this year. That’s good for a yield of 5.4%.

BCE Inc. (TSX:BCE)(NYSE:BCE)

BCE’s stock price is down from close to $63 last December to the current price of about $54. Higher interest rates are primarily to blame, as the market is concerned that investors could dump go-to income names in favour of fixed-income alternatives. In addition, rising rates increase borrowing costs and that can reduce cash flow available for distribution.

These are important factors to consider when evaluating BCE, but the pullback might be overdone.

Significant investments in fibre-to-the-premises network upgrades should boost BCE's competitive advantage and pave the way for higher data revenue. BCE is large enough to raise prices when it needs more money and generates adequate free cash flow to support the generous dividend.

BCE increased the payout by 5.2% for 2018. At the time of writing, investors can pick up a 5.6% yield.

Algonquin Power and Utilities Corp. (TSX:AQN)(NYSE:AQN)

APUC owns renewable energy businesses in the wind, solar, hydroelectric, and thermal segments. More than 90% of the company's revenue comes from assets located in the United States, providing investors with a good way to get U.S. exposure.

The company continues to grow through strategic acquisitions and organic projects and reported a 15% increase in adjusted funds from operations, compared to the first quarter last year. The market isn't rewarding APUC for the strong results, as the stock is down from $14 in November to the current price of $12.70 per share.

APUC just raised its quarterly dividend by 10%. The new payout provides an annualized yield of 5.1%.

Is one more attractive?

Power Financial, BCE, and APUC all pay reliable dividends that should continue to grow. At this point, I would probably split an new investment between the three names to get exposure to Canada, the U.S., and Europe.

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1. Dividend Stocks
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aswalker