2 Canadian Dividend Stocks That Are Best for Income Growth

Description

There is no dearth of dividend stocks that offer attractive yields. But what sets a good dividend stock apart isn't simply a high dividend yield.

If you're planning to invest in stocks to earn steady income, you should focus on the company's ability to grow its payouts in the future. Without dividend growth, it's tough to justify investing in a stock no matter how attractive its dividend yield is.

Here, I have picked two stocks from the Canadian market that are perfectly primed for a long-term dividend growth due to the strength of their business and their ability to generate superior cash flows.

Brookfield Infrastructure Partners

For dividend growth, tapping some of the top providers of critical infrastructure, such as gas and power companies and telecom operators, is a sound strategy. The Toronto-based **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) is certainly one of them.

Brookfield owns utilities, transportation, energy, and communications infrastructure across North and South America, Asia Pacific, and Europe. These infrastructure assets are long-lived and produce a steady cash stream. I believe BIP is a company with the potential to offer both income potential and growth in your capital.

BIP's current pipeline of projects is approximately worth $1.7-billion as the company expands its presence in North America. Its recent transactions include a U.S. data centre business from AT&T, a Western Canadian midstream business from **Enbridge** and a North American residential energy infrastructure business from Enercare.

Brookfield's approach is to create value for its shareholders by buying some distressed assets and making them viable. It actively manages those assets and tries to maximize the returns by selling them at attractive prices. This strategy has worked well for the company's shareholders. Since its inception in 2008, BIP has delivered annual total returns of 15%.

Brookfield has been a great dividend growth stock. The company targets annual growth of 5-9% in its dividend, but the actual growth of 12% has far exceeded its distribution target.

Toronto-Dominion Bank

Similar to infrastructure providers, Canadian banks offer another solid avenue to earn growing income. Financial stocks in North America lost their credibility following the 2008 Financial Crisis that generally scared investors away from banks.

But Canadian lenders in the past decade have proved that they're much stronger than their American cousins due to the quality of their balance sheets and conservative lending practices. Among the nation's five lenders, I particularly like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

TD has pursued an aggressive growth strategy in the U.S., which has provided depth and diversification to its operations. In the third-quarter earnings report released last week, TD again showed that its earnings momentum is going strong when it posted a record profit helped by surging income from its U.S. operations.

The bank's overall net income rose 12% to a record $3.1 billion, or $1.65 a share, from $2.77 billion, or $1.46 a year earlier. Adjusted per-share earnings were $1.66, thereby beating the $1.63 average estimate of 13 analysts surveyed by Bloomberg.

For income investors, TD's key strength is its rock-solid dividend. This dividend has grown about 11% on annualized basis in the past two decades, putting the lender among the top dividend payers in Canada. And with a relatively safe payout ratio of between 40% and 50%, there is a good chance that investors will continue to receive this growth going forward.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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