

## Buy These 2 Proven Dividend-Growth Stocks Now

### Description

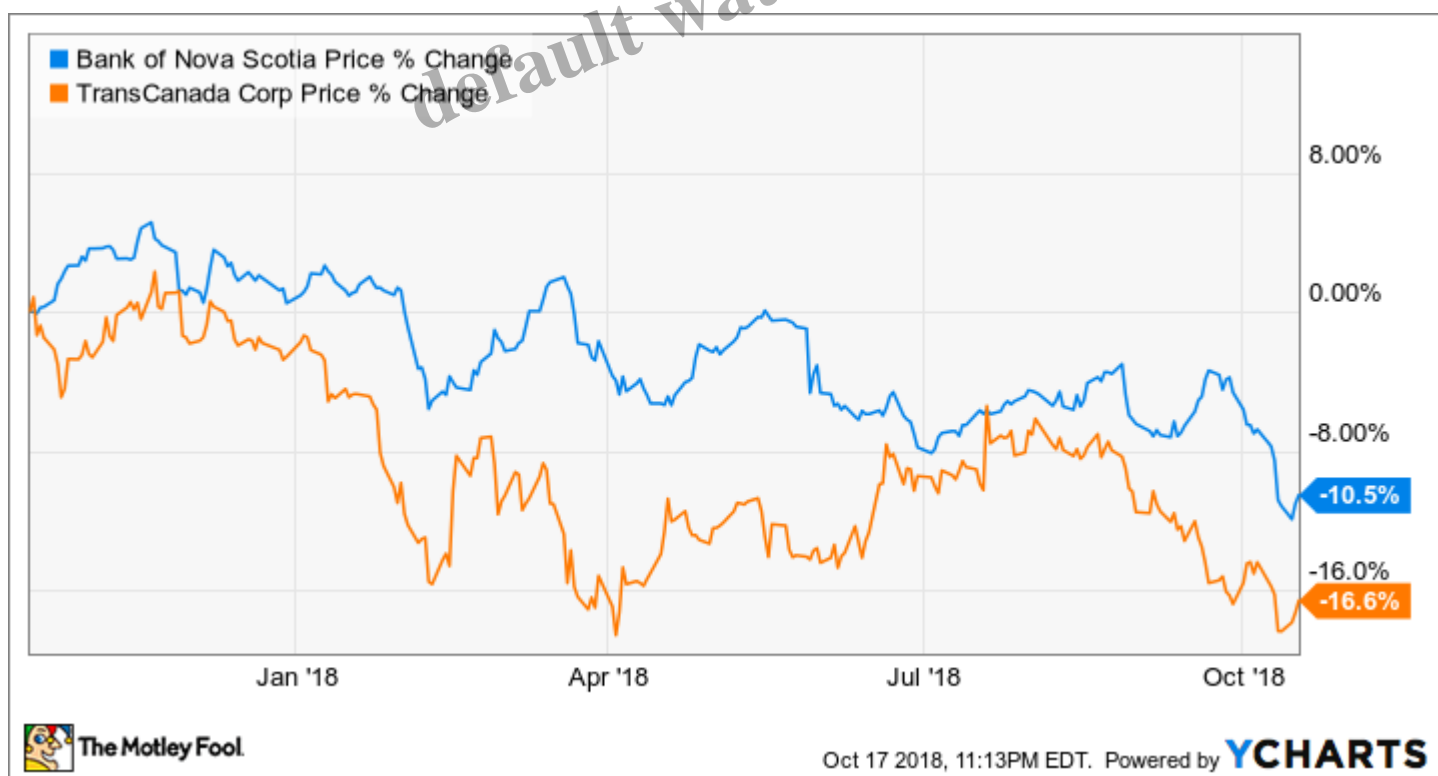
Dividend-growth stocks have historically delivered higher returns than the market. First, dividends offer returns on your investment no matter if the prices of the underlying stocks go up or down. Putting it simply, you won't have to rely on stock prices to get a stable return from safe dividend stocks.

Second, dividends that are increasing add another layer of security. Higher dividends lead to higher share prices over time. Otherwise, we would commonly see dividend-growth stocks with 10% yields.

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or Scotiabank, and **TransCanada** ([TSX:TRP](#))([NYSE:TRP](#)) offer safe dividend yields that are in the sweet spot. That is, they offer yields that are decent for current income as well as reliable dividend increases that beat inflation.

### A great time to buy on the low for big dividend yields

The stocks of both Scotiabank and TransCanada have underperformed in the last year. The bank and the energy infrastructure company have fallen meaningfully by about 10% and 16%, respectively.



BNS data by YCharts. Scotiabank and TransCanada stocks have underperformed in the last 12 months.

The weakness in their stocks is a great opportunity to buy shares for a relatively high initial dividend yield.



BNS Dividend Yield (TTM) data by YCharts. Scotiabank and TransCanada stocks offer relatively high yields based on their five-year yield ranges.

At about \$72.20 per share as of writing, Scotiabank trades at a discounted, blended price-to-earnings multiple (P/E) of about 10.4. Based on a 10-year normal multiple of about 11.9, it has +15% upside potential from being undervalued. The international bank also offers a nice 4.7% yield to boost your returns.

At about \$52.40 per share as of writing, TransCanada trades at a relatively cheap blended P/E of about 15.5. Based on a 10-year normal multiple of about 20.2, it has +30% upside potential from being undervalued. The stock also offers a juicy yield of close to 5.3% as a source of stable returns on your investment.



## Why they have underperformed but are excellent buying opportunities

Scotiabank is Canada's most international bank. Although it has about 50% of its portfolio stabilized by its Canadian banking operations, it also has a growing presence in Latin America, including the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia, and the Caribbean and Central America. So, a strong U.S. dollar tends to be a drag on its performance.

The stock may also be down because of fears of dilution from its [recent acquisitions](#). That said, over the medium term, management aims for earnings-per-share growth of +7% and return on equity of +14%. So, the stock is [a value buy](#) trading at about 10.4 times earnings.

Energy infrastructure stocks are generally out of favour in a rising interest rate environment due to their debt-heavy balance sheets. However, TransCanada is one of the safest names you can buy in the industry. Its dividend is covered by its earnings and cash flow.

TransCanada has \$28 billion of near-term capital investment projects. When combined with the organic growth from its existing business, management estimates it can grow its dividend by 8-10% per year through 2021.

## Investor takeaway

Both Scotiabank and TransCanada have a track record of increasing their dividends over time. Currently, they're trading at cheap valuations, so you can get a higher starting dividend yield from them. Now is the time to pick up the stocks for yields of about 5% and stable dividend growth. An investment from current levels can deliver long-term returns of at least 11% without accounting for the price appreciation from the discounted shares.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

## TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TRP (Tc Energy)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:TRP (TC Energy Corporation)

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