



Income Investors: This Is Canada's Top Dividend Growth Stock

Description

One of the nicest things about dividend growth investing is the simplicity of the selection process. For me, a stock enters into consideration for my portfolio if it offers the following three criteria:

- The stock must have a history of consistent dividend growth
- Potential to increase earnings over time must be obvious
- The company must have a clear moat, protecting it from competitors

The devil is in the details, of course. What separates one company's moat from another? Sometimes this question is tough to answer. And then we have to worry about valuation. I'd much rather patiently wait for a good entry point at a fair price rather than buying at a 52-week high.

Then there's the dividend growth streak. Many investors insist on a stock that has grown its distribution annually for at least a decade — oftentimes more — without fail. I'm more generous, however.

As long as a company generally increases its payout over time, I'm good. Sometimes, during tough times, it's better to conserve cash rather than increasing the dividend.

With that in mind, I'm going to crown **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) over **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) as Canada's top dividend growth stock, despite the latter having a better streak of consecutive dividend increases. Here's why.

Streaks aren't everything

Fortis has increased [its annual payout](#) each and every year for 45 consecutive years. That's an impressive streak.

It's certainly better than Bank of Montreal's dividend growth record. You might remember that BMO paused dividend growth during the Great Recession, keeping the quarterly payout at \$0.70 per share from late 2007 to early 2012.

Some investors will end the conversation right there, and declare Fortis the dividend growth champ. A dividend pause is not something these folks want, even if there's a good reason for it.

But looking further back, we see that BMO has paid an annual dividend [since 1827](#), and hasn't missed a payout since. While I'm impressed with Fortis's ability to grow its dividend for 45 years in a row, I'm amazed by a 172-year streak of paying dividends.

Think about everything that's happened since 1827. We've had dozens of meaningful downturns and economic events. Canada went from being a mishmash of territories into a united nation.

We experienced The Great Depression, huge bouts of inflation, the tech bubble, and the 2008-09 crash. Not only did BMO survive these events, but the company was profitable enough during all of them to continue paying dividends.

How about going forward?

I'm also more confident in BMO's ability to organically grow over the next few decades.

Fortis is no growth slouch either. The company announced a new five-year growth plan in 2018, telling investors that it planned to spend more than \$17 billion on modernizing its grid, investing in more renewable sources of power, and expanding its natural gas utility in British Columbia. This growth plan should be enough to increase the dividend by 6% annually through 2023.

Fortis has approximately \$50 billion in assets today, so a \$17 billion growth plan is nothing to sneeze at.

But I still like BMO's growth potential better. Although mortgage growth is tepid here in Canada, I'm confident that it'll pick up again as certain real estate markets recover.

The company should also benefit from an increased move to digital banking, which should help it decrease its total branch count. The Canadian part of the business should also benefit from better insurance sales and growth in wealth management.

The real growth potential is in the U.S., however. In its most recent quarter, BMO posted 5% revenue growth from its U.S. operations, while net income increased an impressive 12%. The U.S. operations will benefit from organic growth as well as acquisitions. The U.S. banking system is much more fragmented than the Canadian side.

Finally, BMO offers a better current yield than Fortis. It currently pays investors a 4.1% dividend, a little higher than Fortis's 3.4% payout.

The bottom line

Fortis is still a great dividend stock. I wouldn't dream of telling investors to avoid the company. I just think BMO is a little better.

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