

2 Top Dividend Stocks Worth Buying in 2020 and Beyond

Description

Income investing is an attractive strategy for retirement. For starters, the effect of compounding dividends cannot be understated. Research has shown that since the financial crisis, the cumulative returns of dividend stocks has outperformed the broader market.

If you're just starting out or near retirement, building a dividend growth portfolio can lead to significant wealth.

For starters, if a company can grow its dividend on a consistent basis, this is usually a sign of healthy operational performance. In today's rate of low inflation and interest rates, it is also not difficult to build a portfolio of companies that grow their dividend at, or beyond the rate of inflation.

Why hold these stocks in your Registered Retirement Savings Plan (RRSP)? You can take advantage of the deferred tax until retirement, where you will most likely have a lower tax rate.

That said, a dividend growth strategy can be equally effective if built within your Tax-Free Savings Account (TFSA). Each investment vehicle has their own advantages and the one you use will depend on your unique tax profile.

Where should investors look? The best place to start is the Canadian Dividend Aristocrat list. These are companies which have raised dividends for at least five consecutive years. As mentioned, reliable dividend growth is a sign that the company is on a strong financial footing.

Investors, however, should also take into account yield and growth. With that in mind, here are two strong midstream companies that can be a foundation of a strong dividend growth portfolio.

Inter Pipeline Ltd

The subject of takeover rumours, **Inter Pipeline** (TSX:IPL) has had a strong year. The company's share price has jumped 15% and it currently yields a very attractive 7.55%, which is well covered by cash flows (61%).

The company is in the midst of undertaking the largest and most ambitious project in the company's history: the Heartland Petrochemical project.

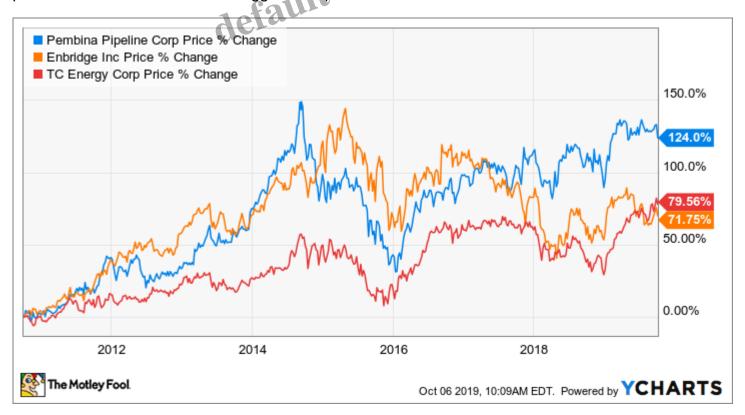
The first of its kind in Canada, Heartland is expected to materially contribute to company earnings and cash flow beginning in late 2021.

At its peak, it is expected to add \$420-450 million annually to earnings before interest, taxes, depreciation and amortization (EBITDA). It is a transformative project that will ensure <u>reliable dividend</u> growth for years to come.

Inter Pipeline has a 10-year dividend growth streak and has averaged low-single digit dividend growth over the past five-years. The company is expected to raise dividends once again next month.

Pembina Pipeline Corp

An industry leader, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) has been one of the <u>best-performing</u> midstream companies of the past decade. Take a look at the chart below that compares its performance with that of its two biggest competitors.



Pembina has average 12.4% annual growth, far outpacing its peers. The company has been an effective allocator of capital, and has thus far avoided any significant acquisitions that have been a

drag on performance.

Investors can expect this outperformance to continue, as it has one of the highest expected growth rates in the industry. Analysts expect average annual earnings growth of 8% over the next five years. Pembina currently yields 5.40% and has raised dividends in the high-single digits over the past seven years.

Pembina is also one of the cheapest in the industry. It's trading at a 12.5 times forward earnings, well below the industry average of 19 times. Of the 18 analysts covering the company, 16 rate it a "buy" and have a one-year average price target of \$56.63 per share. This implies 19% upside from today's price.

Foolish takeaway

Inter Pipeline and Pembina Pipeline are foundational stocks that can form the basis of a high-quality dividend growth portfolio. They both have starting yields above 5% and are growing their dividend at rates above inflation.

Strong earnings, and a positive outlook with plenty of growth ahead will ensure a reliable income default watermark stream for investors.

CATEGORY

- 1. Dividend Stocks
- 2. Energy Stocks
- 3. Investing

TICKERS GLOBAL

- 1. NYSE:PBA (Pembina Pipeline Corporation)
- 2. TSX:PPL (Pembina Pipeline Corporation)

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