TFSA Investors: These Stocks Just Raised Their Dividends. Should You Buy?

Description

Dividend growth investing is a stable and reliable strategy to build wealth. It is also one of the best methods to build an income stream upon retirement. It is important to note, however, that the dividend in itself isn't enough.

Investors should be targeting companies who are growing the business and, in turn, can continue to grow its dividend. If earnings or cash flows start to stumble, then future dividend growth may not be sustainable.

The best place to start your research is the list of Canadian Dividend Aristocrats. These are companies that have raised dividends for at least five consecutive years. They have already established themselves as reliable dividend growth companies and have gained investors' trust.

In October, there have been a few Aristocrats who have raised dividends. Are these stocks worthy of adding to your Tax-Free Savings Account (TFSA)? Let's take a look.

TFI International

TFI International (TSX:TFII) is a North American transportation and logistics company. In 2019, the company's stock is up a healthy 18.19% on the back of record results. On October 24, the company raised its dividend by 8.33%, which extended its dividend growth streak to nine years.

The generally accepted definition of a growth stock, is one that is expected to grow at a double-digit pace. TFI International fits the bill. Over the past five years, it has grown earnings by 18.12% on average. Looking forward, analysts expect much of the same with an average five-year expected growth rate of 18.80% annually.

The company also happens to be attractively valued, which makes TFI International a rare *triple-play*. It is trading below historical averages and at a forward price-to-earnings ratio of 10.03, the company is cheap.

Given its expected growth rates, it also has a small P/E to growth (PEG) ratio of 0.56, which means its stock price is not keeping up with expected growth rates. To top it off, analysts have a one-year price target of $53.12 per share, which implies 28% upside from today's share price.

Waste Connections

A leading waste management company, **Waste Connections** (TSX:WCN)(NYSE:WCN) raised its dividend by 15.6% earlier this week. It was a milestone for the company as it marked a decade of consecutive dividend growth.

Waste Connections has had an inconsistent track record with respect to growth. Average earnings growth has been negative (-2.86%) over the past five years. That being said, the future looks bright as the expectation is for 7% growth this year and 11.70% earning growth in 2020. The company has a payout ratio in the low 30s and as such, has plenty of room to continue growing its dividend.

Unlike TFI, however, Waste Connections is not cheap. The company is trading at 31 times forward earnings and at 3.59 times book value. Although this is lower than its historical averages, it is hard to justify these valuations given the company's expected growth rate. At today's prices, growth is already priced in. That is not to say the company's stock price won't rise, just don't expect considerable upside.

Emera

A mid-sized utility company, **Emera** (TSX:EMA) has an impressive 13-year dividend growth streak. In late September, it raised the dividend by 4.26% or $0.024 per share. Emera is one of the more reliable dividend growth companies as it has a publicized target. Through 2021, the company expects to grow the dividend by 4% to5% annually. Clarity on the dividend growth rate is always appreciated by investors and is not something often found.

Once one of the highest growth companies in the industry, Emera's growth is expected to slow considerably. Over the past five years, it has grown earnings at a 12.35% clip which outpaced industry leaders. However, the expectation is for low single-digit growth (3.6%) over the next five. Does this mean investors should avoid the stock? Not necessarily.

At 19 times earnings and 1.77 times book value, the company is fairly valued and trading inline with industry averages. It is also important to note that as a utility company, Emera is considered a defensive stock and would be expected to outperform in the event of a recession.

CATEGORY

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TICKERS GLOBAL

1. NYSE:WCN (Waste Connections)
2. TSX:EMA (Emera Incorporated)
3. TSX:TFII (TFI International)

4. TSX:WCN (Waste Connections)

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