The Safest Dividend-Growth Stocks in Canada

Description

Dividend-growth investing is one of my favourite investment strategies. The compounding nature of a rising dividend can lead to considerable wealth. However, for the strategy to be fully effective, the portfolio should have a foundation of safe and reliable dividend-growth stocks.

The best place to begin your search is the Canadian Dividend Aristocrat list. These are stocks who have raised their dividend for at least five consecutive years. It is important to note, however, that not all Aristocrats should be considered safe investments. Every year, there are at least a handful of companies on this list that either cut or fail to raise the dividend.

It is for this reason that investors still need to pay attention to the safety of the dividend. This can be evaluated by looking at the payout ratios, consistency of earnings and whether or not they operate in a cyclical industry. “Cyclicals” are more prone to dividend suspensions at the bottom of their cycles.

With this is mind, here are the safest dividend-growth stock in Canada.

Enghouse Systems

One of only three tech-listed Aristocrats, **Enghouse Systems** (TSX:ENGH) is an underappreciated star. Enghouse is an enterprise management software company which offers a suite of products to a wide range of industries operating in the financial, utility, and energy sectors.

The company has a 13-year dividend-growth streak and has averaged 18% annual dividend growth over the past five years. Enghouse last raised its quarterly payout by 22.2% this past May. Among those with a streak of 13 years or greater, Enghouse has the second-highest average growth rate.

The dividend is underpinned by consistent earnings growth and accounts for only 39% of earnings. Likewise, the dividend accounts for only 22% of free cash flow. As such, investors can expect a high-pace of dividend growth for years to come.

Enghouse is also among the best-performing stocks on the TSX. In 2019, the stock has gained

18.34% and has averaged 20% annual growth over the past five years. The company is expected to grow earnings by an average of 13% annually over the next five years. Analysts are unanimous in their coverage — Enghouse is a “buy.” They have a one-year price target of $44.90 per share, which implies 15% upside from today’s price.

Dollarama

Canada’s premier discount retailer, **Dollarama** (TSX:DOL) has had its share of ups and downs over the past couple of years. Increased competition has led to slowing growth. Despite this, Dollarama remains a high-quality company which is still expected to grow earnings by 12% annually over the next five years.

In 2018, the company’s stock price cratered, but it has since rebounded and is up 48% this year. Dollarama’s stock has been highly volatile as investors grappled with its valuation. Leaving this aside, the underlying numbers are solid. Dollarama is a well-run company and is one of the few companies that have found a balance between dividend and earnings growth.

Typically, stocks that have high-growth targets don’t pay dividends. Instead, they prefer to re-deploy cash towards growing the business. For its part, Dollarama has averaged 10% dividend growth over the span of its nine-year dividend-growth streak.

Investors can expect double-digit growth to continue well into the future, as its payout ratio as a percentage of earnings is below 10% (9.77%). Likewise, as a discount retailer, it is positioned to do well regardless of the economic environment.

Another bonus for income investors? If growth prospects aren’t as attractive, the company may start re-directing more cash to shareholders in the form of a higher dividend. It is a natural progression for growth companies.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:ENGH (Enghouse Systems Ltd.)

PARTNER-FEEDS

1. Business Insider
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