Alert: These 2 Stocks Could Boost Their Dividends in 2020

Description

Most income-seeking investors overlook the value of dividend growth. In my view, a steadily expanding dividend is just as important as a high dividend yield.

Companies with a track record of steadily expanding dividends have two things in common: a financially conservative management team and a durable competitive advantage. Some, like one of the stocks mentioned below, are able to sustain their payout, even in an economic downturn. That's what makes these dividend-growth stocks such excellent investment opportunities.

With that in mind, here are two stocks I believe could expand their dividends next year, based on their track records, competitive advantages, and payout ratios.

CIBC

Banking giant **CIBC** (TSX:CM)(NYSE:CM) has been in the cross-hairs of short-sellers this year. Nevertheless, I believe the company's fundamentals are solid, and patient investors could be rewarded with a dividend boost next year.

For one, CIBC pays out less than half (48%) of its earnings in dividends each year. That gives the management team wiggle room to expand payouts when profits grow.

Secondly, CIBC is well-diversified across several regions. The bank has a presence in the United States, the Caribbean, Europe, and Asia. This means its fortune is less exposed to the local economy. Meanwhile, management's acquisition strategy, demonstrated by the PrivateBancorp deal, seems to be aimed at making the bank more globalized.

Meanwhile, the bank's return on equity is still a sizable 14.3%. In other words, it's performing better than most investors realize and paying less than it can afford in dividends, which makes me optimistic about a dividend boost next year.

Fortis

Unlike CIBC, **Fortis** (TSX:FTS)(NYSE:FTS) operates in a much less volatile environment. Utilities are notoriously good at resisting the business cycle and economic downturns.

What makes Fortis special is the strength of its balance sheet and its track record of dividend growth. Fortis pays out only 49% of earnings in dividends each year. Meanwhile, management has clocked in 45 years of uninterrupted dividend increases. An unprecedented record that makes the company a Canadian Dividend Aristocrat.

Over the past 12 months, Fortis generated a whopping $2.7 billion in operating cash flow, which is more than twice the amount it pays out in annual dividends and more than adequate to cover future acquisitions and expansions to other markets.

In fact, my Fool colleague Kay Ng expects the company to expand its assets from $28 billion this year to $38.4 billion by 2024. That's a decent intrinsic growth rate to go along with that 3.6% dividend yield.

Bottom line

The ability to raise dividends consistently is a clear green flag for investors seeking value. Not only does it help passive investors who rely on income generated from investment keep up with inflation, but it also serves as a signal of the company's fiscal prudence and the industry's stability.

CIBC's conservative cash management makes a dividend boost likely; however, I am much more hopeful about Fortis staying true to its historical trend and raising next year's payout regardless of economic conditions.

Either way, both stocks are excellent opportunities for long-term investors.

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