2 Dividend Champions to Buy in 2020

Description

An economic moat refers to a business's ability to retain a competitive advantage, which allows it to remain dominant in its industry and protect its earnings from competition. Identifying companies with wide, almost insurmountable moats is a key aspect of dividend investing that many investors ignore to their detriment.

Companies with wide moats possess many characteristics that indicate that they have strong businesses with consistently growing earnings, giving them the ability to reward investors through regular dividend hikes. That means they can deliver a return in excess of inflation and the risk-free rate of return.

Here are three top dividend-paying stocks with wide, almost impregnable moats that have a long history of rewarding investors with regular dividend hikes and capital appreciation.

Boring electric utility

Utilities are perceived to be boring defensive stocks that are relatively immune to economic slumps. While this may be true, there is a lot to like about electric utility **Fortis** (TSX:FTS)(NYSE:FTS). It has hiked its dividend for an amazing 46 years straight to now have a 3.5% yield, and it has gained an impressive 21% over the last year.

A payout ratio of just under 50% indicates that the dividend is not only sustainable, but there is room for further increases, even if earnings grow at a modest rate.

Fortis possesses a multilayered economic moat that virtually guarantees its earnings. This includes demand for electricity being relatively inelastic, because it is an essential source of energy in modern society. There are also steep barriers to entry, including significant regulatory and capital requirements, for the electric utility industry.

Most of Fortis's income is generated from contracted or regulated sources, making its earnings highly reliable. These characteristics not only protect Fortis from competition but also economic downturns, making it an ideal defensive dividend stock for any income-focused portfolio.

A $10,000 investment in Fortis 10 years ago would now be worth $28,000 if dividends were reinvested. This represents a return of 180%, or a compound annual growth rate (CAGR) of almost 11%, highlighting the solid returns that even a low-growth and less-volatile stock like Fortis can generate over the long term.

That return is significantly higher than Canada's annual average inflation rate for the last 10 years of just under 2%, indicating that Fortis is delivering considerable value for shareholders.

Integrated energy major

Another dividend champion to consider is integrated energy company **Suncor Energy** (TSX:SU)(NYSE:SU), which has increased its dividend for the last 17 years straight to yield a tasty 3.8%. Despite weaker oil and the ongoing energy slump, Suncor has generated a total return of 55% over the last 10 years if dividends were reinvested and is poised to soar higher in 2020.

A combination of firmer crude and Suncor's integrated operations, which include oil production and refining businesses, has allowed it to stay profitable, regardless of highly volatile oil prices. Suncor possesses an impressive economic moat because of strict regulatory requirements and its integrated operations**,** which give it the ability to refine a significant proportion of the crude that it produces.

That ensures Suncor can grow earnings, even if the discount applied to Canadian heavy oil deepens and prices remain weak.

Suncor has a range of advantages over smaller upstream oil producers, key being its long-life, low-decline rate oil sands assets, which reduces the amount of capital it needs to invest to sustain production. For that reason, Suncor reported low cash costs for its oil sands operations of $26.60 per barrel produced, indicating that it can remain profitable, even if oil remains weak.

As oil firms, Suncor's earnings will continue to grow, supporting further dividend hikes and boosting its market value, making now the time to buy.

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Author
mattdsmith