2 Dividend Stocks That Could Be Cash Cows for Years

Description

Securing your future requires developing habits that build financial well-being. Think of it as starting a farm that will deliver sustenance for years on end. If you align this analogy with long-term investing, you only need a pair of cash cows to be worry-free throughout retirement.

On the TSX, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Fortis** (TSX:FTS)(NYSE:FTS) are the so-called cash cows of long-term investors, dividend seekers, and retirees. If you buy these dividend stocks today, you'll accumulate more shares but never sell again.

Hands-down choice

Canada's banking industry is revered globally. Since the Big Five banks have been paying dividends for more than a century, all of them are also excellent long-term investments. However, if you were to pick only one from the elite group, the largest lender is the hands-down choice.

RBC is the second-largest publicly listed company on the TSX with its $179.16 billion market capitalization. Besides the formidable size, the bank stock pays a healthy dividend. As of June 28, 2021, the share price is $125.53, while the dividend yield is a decent 3.42%.

The assets are well balanced (almost 50% retail and 50% institutional), with five business segments contributing to revenues. Besides the home country and the U.S., RBC is present in 34 other countries. However, the domestic market is still its largest source of revenues (nearly 60%).

RBC's pursuit of growth of investment capabilities and innovative solutions for institutional clients and retail investors is never-ending. After Q2 fiscal 2021 (quarter ended April 30, 2021), the bank has $9.9 billion in excess CET1 capital beyond the 11% industry floor. Its CET1 ratio of 12.8% is the third highest among the Big Five.

According to the Office of the Superintendent of Financial Institutions (OSFI), Canadian banks are no longer at risk of a wave of defaults. Apart from sufficient capacity to lend, the credit markets are functioning well. The Big Five banks have the green light to resume dividend increases and share buybacks. Management is likely to do just that and use excess cash for internal organic growth.

Defensive gem

The perfect partner to the country's biggest lender is Fortis. This utility stock is the acknowledged defensive gem on the TSX. While other dividend payers dwarf the yield of this $25.79 billion electric and gas utility, there's no peace of mind. At $55.87 per share, the dividend offer is a respectable 3.6%.

Fortis is more than 130 years old, with 10 utility companies under its umbrella. It's now among the top 15 utility companies in North America. So, what makes this dividend stock a cash cow and ideal for risk-averse investors?

First, the business model is low risk, as the diversified utility businesses are highly regulated. Apart from the cost-of-service regulations, performance-based rates dictate Fortis's earnings. Second, the extensive infrastructure assets have long economic lives, and the utility companies are leaders in their respective jurisdictions.

Last, Fortis is a Dividend Aristocrat owing to its record of increasing dividends for 37 consecutive years. The $19.6 billion five-year capital plan in place should increase Fortis's rate base to $40.3 billion by 2025. Management plans to increase dividends by 6% annually through 2025.

Sleep easy

Imagine a stock portfolio with two Dividend Aristocrats as core holdings. You can sleep easy at night knowing these cash cows are producing your income for life.

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1. Bank Stocks
2. Dividend Stocks
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2. NYSE:RY (Royal Bank of Canada)
3. TSX:FTS (Fortis Inc.)
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