Will High Interest Rates Support Dividend Growth in 2022?

Description

Canadians shouldn't worry about where to find or earn extra income amid rising inflation and looming interest rate hikes. Steve Arpin, Beutel Goodman Investment Counsel's managing director of Canadian equities, notes that the sentiment this year is strong.

Arpin said, "Corporate profitability has improved dramatically in 2021 and should continue to improve in 2022." His company thinks strong demand for manufactured goods and inventory replenishment should exist following the pandemic-driven supply chain challenges. Arpin further adds this environment should support dividend growth.

According to Beutel, corporate profitability and free cash flow generation are the key drivers of sustained dividend growth. Because of the earnings recovery in 2021 and anticipated positive backdrop in 2022, it expects dividend growth to be at least 5%, the TSX's the historical average.

In terms of individual stocks, the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) should be on the priority lists of dividend investors. The bank stock is stronger than ever, while the energy stock's dividend policy and frequency are well-loved by many.

TSX's largest company

All Big Six banks announced a dividend bonanza in the most recent earnings season. RBC, the largest in the sector, raised its dividends by 11% and plans to buy back $5.68 billion worth of shares. The $209.4 billion lender is back as TSX's largest company after **Shopify**'s market cap dropped to $140 million.

Canadian banks are in a strong position to grow earnings and dividends, says Arpin. RBC, in particular, has a strong capital level and broadly favourable business outlook. It's not a long shot that another dividend raise could happen by mid-year. At $146.87 per share (+10.32% year-to-date), the dividend yield is 3.6%.

Banks can't commit to another dividend hike because of the federal government's plan to increase taxes on financially regulated companies. Leith Wheeler's head of equities, Bill Dye, said banks and life insurance companies are being a bit conservative in terms of their dividend payout ratios until they know the details of the tax bill.

Les Stelmach, Franklin Templeton's SVP and portfolio manager, has the same view. He said, "Banks retain excess capital, and at the very least we believe the group will resume their annual pattern of increases from this point." Meanwhile, details of the tax bill will come out in the spring 2022 budget.

Monthly income stock

Pembina Pipeline is a favourite of yield-thirsty income investors. Besides the lucrative dividend (6.11%), the payout is monthly, not quarterly. You can earn $150.20 every month by owning $29,500 worth of shares. The energy stock currently trades at $41.09 per share (+7.67%, year-to-date).

This $22.61 billion oil major continues to grow through acquisitions and expansion to new markets. Furthermore, management keeps enhancing product offerings and offers new opportunities to existing assets. The lack of dividend cut in the face of strong headwinds in 2020 is proof of the solid, overall asset quality of Pembina.

Expect the transportation and midstream service provider to generate material excess cash flow this year. Pembina hopes to jointly develop a system to transport and sequester carbon with industry peer **TC Energy**.

Rock-steady dividends

RBC and Pembina Pipeline should deliver rock-steady dividends. Both companies won't see declining or collapsing profitability anytime soon.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:PPL (Pembina Pipeline Corporation)
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