2 Dividend Aristocrats That Belong in Your Portfolio

Description

Dividend Aristocrats are companies that have managed to increase their dividend distributions for at least five consecutive years. It's important to note that this is a different metric than companies that have been able to simply *pay* a dividend for five consecutive years. For example, **Bank of Nova Scotia's** dividend-growth streak is only at 11 years. However, the company has managed to pay a dividend for 189 consecutive years.

It's important to keep this metric in mind, because it provides insight into a company's ability to allocate capital over time. As earnings grow over the years, investors should expect a company to be able to increase its distribution as well. Another reason why investors should favour companies that are able to increase distributions over time is simply because of inflation. If dividend companies fail to increase distributions over time, then shareholders will lose buying power in the dividends they receive.

With that said, not all companies are equal. In this article, I'll highlight two Canadian Dividend Aristocrats that investors should consider holding in their portfolios.

One of the best dividend stocks in the country

When I think of Canadian Dividend Aristocrats, **Fortis** (TSX:FTS)(NYSE:FTS) is the first company that comes to mind. I believe that all investors should adopt a similar habit. Fortis holds the second-longest active dividend-growth streak in the country. It has managed to increase its dividend distribution in each of the past 47 years. That makes it an excellent distributor of capital and a stock you should consider holding in your portfolio.

One reason Fortis may have been able to increase its dividend so consistently is because of the recession-proof nature of its business. There have been two major events in the past 15 years that have caused many companies to halt dividend increases. These are the Great Recession and the COVID-19 pandemic. These events caused a slowdown and/or uncertainty in revenue for many companies.

However, through both events, Fortis didn't experience the same downside. It provides regulated gas and electric utilities to 3.4 million customers across Canada, the United States, and the Caribbean. This type of business makes its revenue predictable and stable regardless of what the economic condition appears to be. This is a great Dividend Aristocrat to hold.

A company that leads a very concentrated industry

The Canadian railway industry is heavily concentrated, as it's dominated by two companies. Historically, **Canadian National** (TSX:CNR)(NYSE:CNI) has been the larger of those two companies. It operates a rail network that spans nearly 33,000 km of track. This network stretches from British Columbia to Nova Scotia and as far south as Louisiana. In terms of revenue, Canadian National ranked in the top 10 in the world in 2020.

With respect to its dividend, Canadian National holds a 25-year growth streak. That gives it the 10th longest active dividend-growth streak in Canada. It's important to note that Canadian National's forward yield is quite low (1.86%). That means, in terms of getting a bang for your buck, investors will need to invest more money in order to get a sizeable dividend. However, its payout ratio is also very low (35.7%). This means the company has sufficient room to comfortably increase distributions in the future.

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Date
2025/08/30
Date Created
2022/03/04
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