



2 of the Best Stocks to Buy for Fast-Growing Passive Income

Description

High inflation has stretched the average Canadian's monthly budget and reduced their purchasing power. The current scenario has reiterated the need for passive income that can grow with inflation. The [bearish market](#) has created an opportunity to buy these dividend stocks with fast-growing dividends per share.

Stocks that give growing dividends

The Toronto Stock Exchange has several energy stocks that pay high dividends. Canada is the fourth largest crude oil exporter, supplying 99% of its oil and gas to the United States. Canada is focused on shifting to renewable energy to reduce CO2 emissions. While world leaders talk extensively about reducing their carbon footprint, [renewable energy stocks](#) have not yet got the limelight they deserve. But they are the future of energy and will replace oil in many areas.

The energy company of today and tomorrow has immense potential to grow dividends for decades. Looking towards the future, I picked two energy stocks that could increase their dividend by 7-10% annually.

Algonquin Power & Utilities

Here is a mid-cap utility stock that supplies renewable power to industries and households and has increased its dividend at a CAGR of 9.2% in 10 years. A 9% compounded annual growth rate (CAGR) can convert \$100 into \$154 in five years. And a 9% growth rate is faster than the inflation peak of 8.1% in [June](#).

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) has 4.2 GW of renewable energy generating capacity, of which 75% is wind. Apart from supplying electricity, the company supplies natural gas and water to ~1.23 million customers. It expects to add 228,000 more connections with the acquisition of Kentucky Power. Accretive acquisitions in a favourable environment are driving Algonquin's growth.

Algonquin aims to pay 80-90% of its distributable cash flow (DCF) as dividends. The company has allocated \$12.3 billion to build new renewable energy and utility projects over the next five years. The upcoming projects will drive customer connections and increase cash flows, thereby supporting a 7-10% dividend CAGR.

Algonquin's shares fell 25% in the current bear market as the focus shifted to oil and gas stocks. The dip has inflated its dividend yield to 6.59%. If you invest \$1,000 in this stock now, you can get \$70 in annual passive income that can grow to \$92 in five years at a 7% CAGR.

Enbridge stock

Here is a large-cap energy infrastructure stock that has increased its dividend at a CAGR of 10% in 27 years. Although I do not expect the stock to sustain 10% growth, a 7-8% CAGR is likely for this oil and gas pipeline company. Once again, the dividend growth is higher than Canada's average inflation of 2%.

Oil and gas have attracted the attention of investors because of the global energy crisis. Europe is buying liquefied natural gas (LNG) from other countries after banning Russian gas. The current circumstances created an LNG export market for North America. As North America's largest pipeline operator, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) is looking to grow its share in North America's LNG export market to 30% by 2040 from 20% at present. The company has Woodfibre and Plaquemines projects in construction and Texas LNG and Rio Grande projects under agreement. These LNG projects can drive Enbridge's cash flow.

The company slowed its dividend growth to 3% in 2021 and 2022 as the pandemic hit its DCF growth. But this is about to change as, amidst the 2022 oil and gas crisis, Enbridge raised 2022 DCF guidance to \$5.2-\$5.5 (8% growth). Since the company pays 60-70% of its DCF in dividends, its 2022 dividend per share could grow 6%-12% to \$3.64-\$3.85.

The bear market did not have a significant impact on Enbridge stock. It is down 10% from its June peak, and its dividend yield is 6.5%. If you invest \$1,000 now, you can get \$65 in annual passive income, which can grow to \$87 in five years at a 6% CAGR.

CATEGORY

1. Energy Stocks

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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