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Four Canadian dividend stocks poised to raise their payouts

By JOHN HEINZL

Companies that reliably boost their dividend can help to anchor your portfolio and soothe your nerves

When markets are as volatile as they've been lately, it's easy to get freaked out.

Like a passenger in the car with an erratic driver, you have no control over the process and no idea what will happen next. So you imagine the worst.

That's why I'm such a big fan of dividends. No matter how wild the price swings get, if you own solid companies, the dividends will continue to roll in. That steady and predictable cash flow makes it easier to live with extreme volatility.

Some companies are so predictable, in fact, that they even raise their dividends according to a regular schedule. In December, for example, pipeline giant Enbridge[1] and utility operator Fortis[2] both hiked their dividends, as they've been doing for years.

Another steady dividend grower is Canadian Utilities[3], which last week raised its dividend by 10 per cent, continuing its pattern of January increases. The company spins off reliable cash thanks to its regulated gas and electric utilities, pipelines, power plants and other assets. Its dividend yield may appear modest at 2.8 per cent, but the company has delivered annualized increases of about 9 per cent over the past five years.

Such annual increases aren't guaranteed, but they're darn close. The last thing a company wants to do is to disappoint investors.

Even steady dividend growers come with risks, of course. If bond yields were to rise, shares of some dividend stocks would likely fall, but the growing income would help to offset the damage. The predictability of dividends is a key reason I own shares of Enbridge, Fortis and Canadian Utilities, both personally and in my Strategy Lab model dividend portfolio[4].

Below are four other companies that I expect will raise their dividends early in 2015. Remember to do your own due diligence before investing in any security to make sure it fits your risk tolerance. Also remember that stock prices will fluctuate with market conditions, the performance of the business and other factors.

BCE (BCE)

Close: $55.30, up 42¢ Yield: 4.5%

Telecommunications and media giant BCE[5] offers the best of both worlds – a hefty yield plus the prospect of dividend growth, having raised its payment every February (and sometimes more often) for several years. Over the past five years, BCE's dividend has grown at an annualized clip of 8.8 per cent. With third-quarter results beating expectations and BCE completing its privatization of Bell

Aliant – a deal that will boost BCE's free cash flow – I'm expecting another hike on Feb. 5 when the company reports fourth-quarter results and issues 2015 guidance.

Brookfield Infrastructure Partners (BIP.UN)

Close: $51.70, up 19¢ Yield: 4.4%

Brookfield Renewable Energy Partners (BEP.UN)

Close: $36.49, down 72¢ Yield: 5.1%

Brookfield Infrastructure's[6] global asset portfolio – which include utilities, ports, toll roads, pipelines and railways – generates steadily rising cash flow. Last February, the company hiked its distribution by 12 per cent, exceeding its own annual growth target of 5 to 9 per cent. Sister company Brookfield Renewable Energy Partners[7] – which operates hydroelectric and other generating assets in Canada and the United States – aims to increase distributions by a similar amount, having recently raised its distribution growth target. I expect both companies to announce distribution increases when they release fourth-quarter results in early February.

TransCanada (TRP)

Close: $52.50, down $1.01 Yield: 3.7%

Even as TransCanada's[8] Keystone XL and Energy East projects face an uncertain future, the company recently pledged to roughly double its dividend growth rate to 8 to 10 per cent annually through 2017, up from less than 5 per cent previously. The increase reflects the expected completion of about $13-billion of small- and medium-sized projects over the next several years. While a sustained drop in oil prices could crimp TransCanada's longer-term growth, the company – which also has power generation and gas storage assets – is insulated from short-term fluctuations in crude prices. I'm looking for another dividend hike when TransCanada announces fourth- quarter results, likely in February.

Closing thoughts

Markets have plunged before, and they will plunge again. If you focus on the dividends that companies pay – and stick with stocks that reward investors with regular increases – you'll be better able to ride out market slumps without panicking. You might even use market selloffs as an opportunity to buy more shares of great companies at cheaper prices, when the yields are even more attractive.

Disclosure: The author personally owns ENB, FTS, CU, BIP.UN, BEP.UN, BCE and TRP, and holds ENB, FTS, CU, BCE and TRP in his Strategy Lab model dividend portfolio.

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