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The amazing power of long-term dividend growth

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January is barely half over, but already I've received dividend increases from two of the stocks in my Strategy Lab model dividend portfolio. And there are more to come.

I love getting dividend increases. They put more money in my pocket and confirm that my investing strategy is working. But to really appreciate the power of dividend growth, you can't look at dividend increases in isolation. You have to look at the cumulative impact of dividend increases over many years.

So today, I'll briefly discuss the two most recent increases. Then, I'll step back and look at the longer-term impact of dividend growth on these and other stocks.

As discussed last week, pipeline giant Enbridge Inc. raised its dividend by 10 per cent in early January and expects to announce a second hike – for a total increase of 15 per cent in 2017 – after its $37-billion acquisition of Spectra Energy Corp. closes.

Enbridge also reiterated plans to raise its dividend at an annual rate of 10 per cent to 12 per cent from 2018 through 2024. Given the company's solid dividend outlook, I chose to add to my Enbridge position in my model dividend portfolio.

A week later, I got more good news when another one of my Strategy Lab stocks – Canadian Utilities Ltd. – announced a 10-per-cent dividend increase. Canadian Utilities' parent, Atco Ltd., announced an even bigger hike, of 15 per cent.

When a company announces a dividend increase, it sends a strong signal of confidence about the future. Desjardins Capital Markets analyst Mark Jarvi said in a note that the dividend boosts from Canadian Utilities and Atco "show management's conviction in the companies' ability to continue to grow their adjusted [free cash flow]."

Further, Mr. Jarvi said both companies "can comfortably sustain the elevated dividend payments" in light of their conservative payout ratios of 58 per cent for Canadian Utilities and 34 per cent for Atco based on adjusted free cash flow in 2016.

Now, let's examine the impact of dividend hikes over many years.

Enbridge and Canadian Utilities have raised their dividends annually for 22 years and 45 years, respectively. Even if we just look at the past 10 years – a holding period that is realistic for most investors – their dividend growth is impressive.

At the end of 2006, Enbridge was paying annual dividends of 57.5 cents a share and its stock traded at $20.14 (both figures are adjusted for a two-for-one stock split in 2011).The yield at the time was therefore about 2.9 per cent.

Having increased its dividend every year since then, Enbridge is now paying $2.33 annually. So, in a little more than 10 years, Enbridge's dividend has more than quadrupled. If that doesn't convince you of the power of dividend growth, I'm not sure what will.

Looked at another way, if you'd bought the stock 10 years ago, you'd now be collecting a yield of about 11.6 per cent on your original investment. (This "yield-on-cost" figure is for illustrative purposes only and should not be confused with Enbridge's actual yield of about 4.1 per cent based on its current market price of $57.29.) And remember, Enbridge aims to continue raising its dividend. Even if the company delivers on the low end of its 10-per-cent to 12-per-cent forecast range, the dividend will double again by 2024.

Canadian Utilities' dividend growth over the past decade wasn't as spectacular as Enbridge's, but it was still impressive. At the end of 2006, Canadian Utilities' dividend was 58 cents annually and the stock traded at $23.86 (adjusted for a two-for-one stock split in 2013), for a yield of about 2.4 per cent. Including the most recent increase, Canadian Utilities' dividend is now $1.43 annually – nearly 2 1/2 times what it paid in 2016.

Has your salary grown that much? Mine sure hasn't.

Enbridge and Canadian Utilities are far from alone. All of the other companies in my model portfolio have grown their dividends substantially in the past 10 years. Those with dividends that have at least doubled include Royal Bank of Canada (despite not raising its dividend for 14 consecutive quarters following the financial crisis), Fortis Inc., Telus Corp., BCE Inc., Johnson & Johnson and Procter & Gamble Co.

I'm focusing here on dividend growth, but in most cases when a company's dividend rises over many years, its share price also moves higher. So investors win twice.

Now, I'm not suggesting that a company's dividend growth rate in the past decade will necessarily repeat over the next 10 years, although I do expect that all of the companies mentioned here will continue raising their dividends. What I am saying is that investors need to look at the long term to see the remarkable results that consistent dividend growth can produce.

If dividends can grow this much over a decade, imagine what will happen over 20 or 30 years.