10 Top Dividend Growth Stocks in the S&P/TSX 60

Description

How safe is your retirement from inflation?

Sure, rising prices may not pose much of a threat today. The consumer price index — a rough barometer for inflation — is only rising by about 1% to 2% annually. Central banks around the world are preoccupied with falling prices.

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But in five… 10… 20 years, who can say? If inflation makes a comeback, interest payments from GICs and bonds won't be able to keep pace with rising prices.

That's the advantage of dividend growth stocks. High quality companies like utilities, banks, and pipelines, for example, can increase their dividends regularly, serving as a natural hedge against inflation.

Not only do dividend growers protect your wealth from rising prices, but they're just darn good investments. Studies show a direct link between higher payouts and higher earnings growth. This is due to the simple fact that managers have to carefully allocate capital to value creating projects. It's no wonder dividend growth stocks have outperformed the broader market over decades.

So with all that said, let's take a peek at the top 10 large-cap dividend growth stocks. In this list, I only included members of the prestigious **S&P/TSX 60** index and ranked companies according to their compounded dividend growth rates over the last five years.

Company	**Yield**	**5-year Div. Growth**
Potash Corp.	3.9%	60.0%
Suncor Energy	2.1%	35.7%
Cdn Natural Resources	2.0%	33.8%
Magna International	1.6%	33.4%

Company	Yield	5-year Div. Growth
Yamana Gold	2.1%	30.3%
Goldcorp	2.4%	27.2%
Tim Hortons	2.1%	26.2%
Canadian Oil Sands	6.2%	18.5%
Metro	1.8%	16.9%
Canadian Tire	1.6%	15.8%

Source: Yahoo! Finance

Obviously, the problem with a screen like this is that you get a number of names that you *should've* bought. However, many of the companies on this list are unlikely to deliver these types of returns over the next five years.

Potash Corp. (TSX: POT)(NYSE: POT) is a case in point. In a recent post I highlighted the fact that the company's unusually high yield is a reflection of the sour outlook for potash prices.

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It's the same problem here as well. Sure, the company delivered 60% annual dividend growth over the past five years. But that was because the payout started from an unusually low base and was supported substantially by rising potash prices. No, this stock won't be at the top of this list in 2019.

I'm sceptical of other stocks on this list as well — namely **Yamana Gold** (TSX: YRI)(NYSE: AUY) and **Goldcorp** (TSX: G)(NYSE: GG). Once again, such performance was only possible thanks to skyrocketing gold prices. But with precious metals out of favour with investors, miners are looking to cut costs, rework mine plans, and sell assets. They're not thinking about hiking dividends.

However, there are a few good income ideas on this list. **Suncor** (TSX: SU)(NYSE: SU) Chief Executive Steve Williams has made it clear that he is committed to reigning in spending and returning more capital to shareholders. Since taking the helm in 2011, Williams has doubled the size of Suncor's dividend and has repurchased almost 10% of the company's outstanding shares.

Canadian Natural Resources (TSX: CNQ)(NYSE: CNQ) also has a favourable growth outlook. After a decade of spending heavily to build out its oil sand operations, many of those investments are starting to pay off. Management projects free cash flow to grow sixfold over the next five years. This will likely result in a steady stream of dividend hikes and share buybacks.

Tim Hortons (TSX: THI)(NYSE: THI) is another interesting name. After all, Canadians are unlikely to stop chugging down coffee over the next five years. However, Tim's has also laid out an ambitious growth strategy and plans to add 800 more franchises worldwide by 2018. That could fuel more dividend hikes in the years to come.

As the old financial cliché goes, past performance is no guarantee of future returns. However, the management teams in all of the companies listed above have shown a firm commitment to putting cash in shareholders' pockets. That's a good enough reason to add anyone of these names to your investment watchlist.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:SU (Suncor Energy Inc.)
3. TSX:YRI (Yamana Gold)

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