3 Top Dividend Growth Stocks

Description

For many, dividend investing is just a matter of picking the stocks with the highest yield, but there's way more to it than that.

Over the long haul, dividend growth is far more important than a stock's initial yield. Thanks to the wonders of compounding, rising payouts will result in a larger yield on the initial investment over time. If your investment horizon is measured in decades, companies that can pass on ever-increasing dividends will far outpace their high-yield, slow-growth counterparts.

So with this theme in mind, here are three top dividend growth stocks. No, the yield on any of these names won't blow your socks off, but all promise to deliver impressive growth for decades to come.

1. Dollarama

Dollarama (TSX: DOL) has been one of Canada's great business success stories. Over the past decade, the company has doubled its store count to almost 850 locations. Over the past four years, sales and profits have grown 50% and 200% respectively.

Shareholders are finally starting to share in the company's success. In 2011, Dollarama issued its first dividend to investors at $0.11 per share. Since then, the company has increased that payout three times, and today the stock yields 0.70%.

In spite of Dollarama's impressive expansion, the dollar store concept is still far from saturating the Canadian market. In the United States there's one dollar store for every 14,000 people among the top five chains. In contrast, there's only one store for every 29,000 people in Canada. This means the company still has a long growth runway ahead of it.

2. Canadian Pacific Railway

When it comes to dividend yield, bigger isn't always better. Case in point: **Canadian Pacific Railway** (TSX: CP)(NYSE: CP).

Canadian Pacific is a bet on Canadian prosperity. Over time there will be more people in the country who will be using more goods. Rail will be essential to moving all of these products around the country.

At 0.7%, the payout on this stock is barely better than a Guaranteed Investment Certificate — but investors who skip over this name because of its meagre payout obviously don't know about the company's 611% return since its initial public offering in 2001. Over that time, the dividend has almost tripled in size. This payout should continue to rise as sales and earnings grow over time.

3. Royal Bank of Canada

Royal Bank (TSX: RY)(NYSE: RY) is a wonderful example of what small dividend hikes compounded over time can do for a stock's yield.

If you had bought and held Royal Bank shares since 1984, the yield on your original investment today would be 82%. Over that time, the stock has delivered a 10.9% compounded annual return, excluding dividends.

More distribution hikes are almost certainly on the way. Driven by improving global capital markets and strength in wealth management, RBC's earnings are projected to grow 7%-9% annually over the next five years. Given that the company is paying out less than 45% of its profits to shareholders, the bank's payout could grow even faster than its earnings over that time.

CATEGORY

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TICKERS GLOBAL

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4. TSX:DOL (Dollarama Inc.)
5. TSX:RY (Royal Bank of Canada)

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