3 Dividend Growth Stocks That Could Soar

Description

When searching for good dividend-paying companies, there's always going to be a trade-off. You could either go with the biggest yields, hoping that the companies can maintain their payouts. Or you can go with lower yields, hoping that these dividends will grow.

default watermark

While each case is different, option number two is usually the better choice, because these companies are often healthier, and have much better prospects. Below are three examples.

Canadian Natural Resources

Canadian Natural Resources (TSX: CNQ)(NYSE: CNQ) may not seem very appealing at first, with a dividend yield of only 1.9%. But this is a best-in-class operator in Canada's oil sands, and shareholders have benefited greatly, earning more than 18% per year for the last 15 years.

The key to CNRL's success has been smart capital allocation and ferocious cost control. This has allowed the company to grow production and earnings very efficiently. So there's a strong argument that you wouldn't even want a big dividend with this name. After all, if management invests money so wisely, why should it pay out most of its earnings to shareholders?

That being said, CNRL's soaring earnings and cash flow have allowed the company to raise its dividend while still investing for growth. Over the past 12 months, the dividend has been raised twice, nearly doubling from the payout just last September. If management continues to execute as it has done in the past, further hikes can be expected.

2. CIBC

When one thinks of high growth, one does not normally think of **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM). But when thinking of dividend growth specifically, CIBC should be near the top of the list.

The reason is quite simple: CIBC pays out slightly less than half its income to shareholders, about the same ratio as the other big banks. But this makes no sense. CIBC does not have the same international ambitions as its rivals, and thus has fewer places to invest its money. So it should be paying more out to shareholders than the other banks.

CIBC shares yield over 4% as it is. So if CIBC were to pay out a bigger chunk of its earnings, the yield could get very high, very quickly.

3. Manulife

Like CNRL, **Manulife Financial** (TSX: MFC)(NYSE: MFC) does not have a big dividend yield, only 2.4%. But this is because the life insurer pays out a very small proportion of its earnings to shareholders – less than a third of 2014 expected earnings.

In fact, Manulife hasn't raised its dividend since emerging from the crisis. This is understandable; during the crisis, the company was struggling to raise capital. Fast forward to today, and management doesn't want to go through that again. But now Manulife is better-capitalized than its large peers, and with plenty of earnings growth on the horizon, the dividend can really only go in one direction.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:MFC (Manulife Financial Corporation)

default watermark

Category

1. Investing

Date
2025/09/10
Date Created
2014/07/21
Author
bensinclair

default watermark