



## 3 Dividend Growth Commodity Stocks With Solid Future Prospects

### Description

Dividends — which make up about a third of the total returns of the **S&P TSX 60 Composite Index** — are an important means of generating investment returns. This makes companies paying solid, steadily growing dividends an important addition to any portfolio. More importantly, there is a strong correlation between solid dividend growth and share price growth, because regular sustainable dividend hikes need to be supported by a sound underlying business.

While dividend yield is an important basis for any investment decision, I prefer to look for those companies with dividends that have strong growth rates coupled with low payout ratios and growing demand for their products.

Let's take a closer look at three commodity stocks with solid dividend growth rates, solid share price appreciation, and particularly positive long-term growth prospects.

#### **Canadian Natural Resources Ltd.**

Canada's second-largest integrated energy company **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)) continues to impress with both solid dividend and share price growth. Over the last five years, its dividend has had a compound annual growth rate of an impressive 34%, which now yields 2%, coupled with a very conservative payout ratio of 30%.

This indicates the dividend is not only sustainable but there is plenty of room for future dividend hikes when industry fundamentals and operating conditions justify it.

The company's diversified portfolio of conventional and unconventional oil assets coupled with its downstream operations and wide economic moat bode well for its future growth prospects and its ability to manage the weaker industry fundamentals now being experienced in the patch.

#### **Franco-Nevada Corp.**

Precious metals and commodity royalty and streaming company **Franco-Nevada Corp.** ([TSX: FNV](#))([NYSE: FNV](#)) continues to see solid growth prospects. Mixed messages regarding the state of the

global economy, coupled with investors seeking out safe-haven investments, continue to fuel its share price, up a massive 98% over the last five years.

While its dividend yield of 1.5% may not be particularly eye-catching, the steady growth of the dividend, giving it a five-year compound annual growth rate of 27%, is certainly attention-grabbing. More importantly, it is one of the best ways to play a rally in precious metal prices, with its diverse portfolio of royalty and streaming contracts encompassing gold, platinum, and palladium.

Emerging fears of deflation in the eurozone and slowing industrial activity in China as well as the uncertainty created by the conflicts in the Ukraine, Libya, Syria, and Iraq continue to generate considerable interest in safe-haven assets such as gold.

Franco-Nevada is also a far less risky but leveraged play on a rally in gold than the miners because it does not operate with the same overheads or the need to continue making the same significant capital expenditures to maintain production. This allows it to generate a solid margin per ounce of gold sold, which is superior to the gold miners, and as such, even a slight rise in the gold price should translate into a solid bump in its bottom line and ultimately its share price.

### **Agrium Inc.**

Phosphate miner and agricultural chemicals company **Agrium Inc.** (TSX: AGU)(NYSE: AGU) pays a dividend with a tasty yield of 3.5% and with a very sustainable and conservative payout ratio of 58%. It has also significantly hiked its dividend over the last five years, giving its dividend an impressive compound annual growth rate of 69% over that period.

While the company has struggled with softer industrywide fundamentals including weaker phosphate prices, there are signs the outlook is improving, particularly with phosphate prices stabilizing. For the first two quarters of this year, Agrium has beaten the consensus analyst forecast by 40% for the first quarter and 6% for the second quarter. It has also seen its share price rocket up a massive 94% over the last five years and there are signs this growth will continue.

Growing global demand for food and declining quantities of arable land will see the demand for fertilizer products including potash, phosphate, and nitrogen rise significantly.

Agrium has also developed North America's largest network of agricultural supply retail outlets, giving it the best of both worlds and allowing it to cash in on firmer phosphate prices while clipping the ticket on the products sold through those outlets.

All three companies offer solid growth potential for investors along with solid dividend growth and diversified exposure to a range of key commodities, which are seeing increased demand. This bodes well for further share price appreciation and dividend hikes.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)

2. NYSE:FNV (Franco-Nevada)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:FNV (Franco-Nevada)

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