



The 3 Best Canadian Dividend Stocks

Description

Many dividend-seeking investors look first for the company that has the highest annual yield, but this can be a big mistake.

Dividend-paying companies have proven time and time again that they can outperform their non-dividend-paying counterparts; however, it is important to make sure that the company is paying a dividend it can sustain.

It is also important to look at the growth prospects of the company. It makes absolutely no sense to invest in a company that pays large dividends if its stock value is going to fall and you will lose money on your initial investment. To spare you the work, here are three companies that pay sustainable dividends and are positioned for future growth.

1. Canadian Natural Resources Limited

Canadian Natural Resources Limited ([TSX: CNQ](#))([NYSE: CNQ](#)) pays a dividend of \$0.21 per share, which makes the annual yield about 2.4%. The company has never decreased its dividend; in fact, it has doubled its dividend payments over the past two years. Its payout ratio is 28%, well below the 75% cut-off point generally deemed as an unsustainable payout ratio.

Looking past the dividend alone, Canadian Natural Resources is a solid investment. The company has posted steady, consistent growth over the years. Over the past 10 years alone, the company's stock has appreciated 853%. While economic conditions — particularly the price of oil — impact the stock, the company's status as a low-cost producer with long-life, low-decline assets has enabled it to generate income in a variety of conditions. The company's abundant free cash flow is what enables it to easily fund its dividend; only 8.4% of its operating cash flow goes into paying dividends. The company's future growth prospects are excellent, so dividends will likely continue to increase over the years.

2. Royal Bank of Canada

Royal Bank of Canada ([TSX: RY](#))([NYSE: RY](#)) pays a \$0.75-per-share dividend, for an annual yield of

3.78%. The payout ratio is a sustainable 45%. Royal Bank of Canada has also steadily increased its dividend over the years, and it has been rewarding its investors with distributions since 1870. Not many companies have such a long, stable history, and this is a major reason why the company is one of the best dividend investments out there.

Royal Bank of Canada dodged the meltdown that U.S. financial institutions recently went through. This can largely be attributed to Canada's more stable, conservative banking industry. But the positives go beyond dividend payments alone. The company's stock has appreciated consistently over the years, and the future growth prospects are excellent.

3. Suncor Energy Inc.

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) pays a \$0.28-per-share dividend, for an annual yield of 2.86%. The company recently increased its dividend from \$0.23. The payout ratio, using 2013 full-year results, is 28%, and only 12% of operating cash flow goes into paying dividends.

Suncor Energy stock is in a bit of a rut right now, but I see this weakness as a buying opportunity. The stock scores high on all my other factors that make a great dividend investment: past performance, low volatility, and cash flow. The company has consistently generated almost \$10 billion in annual cash flow, even with fluctuating energy prices.

This achievement is thanks to its integrated operations. Suncor holds oil and gas operations in various stages, from exploration and extraction to processing, transporting, and refining. It even has exposure to retail through its Petro Canada gas stations. Over the past 10 years, Suncor's stock has gained 104%. That proves that in addition to dividend payments, investors can expect to make a nice return on their initial investment.

While these three stocks are a great choice for investors looking for dividends, for a great all-around investment, check out our top analysts' No. 1 pick for 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:RY (Royal Bank of Canada)
6. TSX:SU (Suncor Energy Inc.)

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