3 Top Dividend-Growth Stocks for 2018

Description

If you want a return from your stocks coming both from price appreciation and dividends, then dividend-growth stocks should interest you. Those stocks have strong earnings growth and are thus increasing their dividends at a fast rate. Their earnings are much higher than the dividends they pay, so they have room to increase them a lot without risking their financial health.

I present three stocks that had a dividend compound annual growth rate (CAGR) over 10% during the last five years.

Dollarama Inc. (TSX:DOL)

Dollarama pays a quarterly dividend of $0.11 per share, which totals $0.44 annually for a yield of 0.3%. This is not high, but the company is increasing its dividend at a fast rate. Indeed, Dollarama has a five-year dividend CAGR of 15%.

The dividend is very well covered by earnings. Thus, the dividend cover, which is the earnings per share (EPS) divided by the dividends per share, is 9.9, given the EPS of $4.35 and dividend per share of $0.44. Considering that a dividend is safe when the dividend cover is at least two, that means Dollarama has plenty of room to increase its dividend in the future without compromising its financial position.

The dollar store chain's earnings are expected to grow at a rate of 17.53% annualized for the next five years. This high growth rate means that Dollarama should continue to increase its dividend at a fast rate for the years to come. The return on equity is extremely high at 543.25%, because the company is very profitable.

Dollarama's share price has a five-year CAGR of almost 40%.

Canadian Tire Corporation Limited (TSX:CTC.A)

Canadian Tire pays a quarterly dividend of $0.90 per share, totaling $3.60 annually for a yield of 2.1%. The company has been increasing its dividend at a fast rate. Indeed, Canadian Tire has a five-year dividend CAGR of 21%.

EPS of $10.05 and dividend per share of $3.60 give a dividend cover of 2.8, so the dividend is well covered by earnings, and the company has room to increase its dividend at a faster rate without being financially at risk.

The retailer's earnings are expected to grow at a rate of 11.51% annualized for the next five years. This high growth rate means that the retailer should continue to increase its dividend at a fast rate for the years to come. The return on equity is 14.21%.

Canadian Tire's share price has a five-year CAGR of 21%.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

CN Rail pays a quarterly dividend of $0.4125 per share, totaling $1.65 annually for a yield of 1.6%. The company has been increasing its dividend at a fast rate. Indeed, CN Rail dividend has a five-year CAGR of 14%.

EPS of $5.10 and dividend per share of $1.65 give a dividend cover of 3.1, so the dividend is well covered by earnings, and the company has room to increase its dividend in the future.

CN Rail's earnings are expected to grow at a rate of 10.50% annualized for the next five years. This high growth rate means that the railway company has the capacity to increase its dividend at a fast rate for the next years. The return on equity is 25.77%.

CN Rail's share price has a five-year CAGR of 18%.

CATEGORY

1. Dividend Stocks
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1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:DOL (Dollarama Inc.)

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