2 Market-Beating Dividend Stocks for Your TFSA

Description

Finding dividend stocks that consistently beat the market should be the key investing objective for all investors, including those who are using their Tax-Free Savings Accounts (TFSA).

In this strategy, you're basically looking for companies that produce not only growing cash flows, but also have enough growth momentum going.

With this theme in mind, I have picked two stocks that have long histories of producing returns that beat the broader market. Let's find out if they can repeat this performance going forward.

Dollarama

Dollarama Inc. (TSX:DOL), Canada's largest owner and operator of dollar stores, has produced market-crushing returns for years. During the past 12 months, Dollarama handed in 54% total returns, assuming you had re-invested all your dividends back into the company. These gains are amazing and show us that there are non-tech companies that deserve our attention.

So, what's the secret of Dollarama's success at a time when the Canadian market is proving to be a graveyard for many top retail names? In discount retail, it's all about finding the right product mix and targeting the right consumer class. In Canada, consumers from the middle class are the ones who spend the most and who are very price conscious.

Dollarama benefited from a less-saturated space for discount retailers in Canada when compared to the U.S. Its longstanding policy to stay away from fresh food also paid off.

Dollarama pays a meagre 0.28% dividend yield, which translates into $0.43 a share annual payout. But the major portion of the return has come from the capital gains. During the past five years, investors earned more than 400% in total returns.

Trading at $154.57 a share and with the trailing 12-month P/E ratio of 35.43, Dollarama's shares look pricey to some investors, but the company has the potential to continue to grow and surprise investors.

Restaurant Brands

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) produced triple-digit gains for investors during the past five years. The parent company of three restaurant chains — Burger King, Tim Hortons, and Popeyes Louisiana Kitchen — is well positioned to continue with this explosive growth.

During the past five years, Restaurant Brands generated 231% in total returns, with analysts forecasting more growth, as the company aims to expand aggressively. Last month, the company announced 114% hike in its dividend payout to US$1.80 annually, which equates to a yield of about 3.1%.

Restaurant Brands stock has been on a roller-coaster ride for the past one year due to its ongoing dispute with Tim Hortons franchisees in Canada, but the stock's 15% plunge from the 52-week high offers a good entry point to long-term investors.

With 3G Capital and National Indemnity, a subsidiary of Warren Buffett's **Berkshire Hathaway** , being the company's largest shareholders, I think Restaurant Brands has the potential to grow its sales, earnings, and dividends. This combo makes this stock a good candidate for investors seeking both capital gains and income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:QSR (Restaurant Brands International Inc.)

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Date
2025/08/26
Date Created
2018/03/16
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