3 Dynamic Dividend Growth Stocks for September

Description

If you’re a young investor, one of the best things you can do is stuff your TFSA with dividend growth stocks. The potent combo of growing income and appreciation upside — all at the amazing tax rate of 0 percent — is absolutely ideal for wealth-building.

Time after time, studies show that dividend growth stocks outperform the market over the long haul.

Why? Well, in addition to a consistently growing payout (which nicely pads returns), dividend growth stocks tend have all the important features of wonderful market-beating companies. They include a durable competitive advantage; robust and growing cash flows; a stable business model; and shareholder-friendly management.

Moreover, dividends have historically accounted for about 51% of the stock market’s total returns.

In other words, if you’re not actively searching for dividend growth stocks, chances are you’re overlooking great companies *and* neglecting a massive source of performance.

So, to help you in your quest for solid dividend growth stocks, here’s a short list of three potential candidates. In addition to having high dividend growth over the past five years, they all have solid returns on equity (ROE). This helps us zero in on dividend-growers that actually have the competitive muscle to sustain increased payouts.

Without further ado:

Company	5-Year Dividend Growth	Trailing 12-Mont
Canadian National Railway (TSX:CNR)(NYSE:CNI)	108.4%	34.8%
CCL Industries (TSX:CCL.B)	123.2%	23.7%
Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)	154.2%	8.4%

As always, don't view these stocks as formal recommendations. Instead, look at the list as jumping-off point for further research.

That said, CN Rail looks especially enticing to me.

Growth train

CN has a long history of rewarding shareholders with solid dividends *and* price appreciation, but here's the best part for investors: I don't see that ending anytime soon.

In Q2, for instance, CN posted 27% net income growth on "robust demand," as well as a best-in-industry operating ratio of 58.2%. The company also remains a steady cash cow, having generated $1.3 billion of free cash flow over the first half of 2018. So while CN has certainly had some operating hiccups in recent quarters, the negative trend seems to be rapidly reversing.

Moreover, management continues to invest heavily for long-term growth, all while maintaining its commitment to capital returns — both in the form of dividends and buybacks.

"This record [capital expenditures] supports our commitment to restore our network fluidity and resiliency, and accommodate long-term growth at low incremental costs," said CFO Ghislain Houle in a conference call with analysts. "Furthermore, we continue to reward our shareholders with consistent dividend returns, and we are on track with our current share buyback program of approximately $2 billion."

Looking ahead, management sees full-year EPS of $5.30-$5.45, nicely ahead of the consensus of $5.26. When you combine that favourable outlook with a payout ratio of just 23%, I think it's safe to bank on *plenty* of more dividend hikes going forward.

With a yield of just 1.6%, it's a stretch to call CN a fat income stock. But given CN's dividend growth, appreciation potential, and shareholder-friendliness, it has "outperformer" written all over it.

Fool on.

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2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:CCL.B (CCL Industries)
4. TSX:CNQ (Canadian Natural Resources Limited)
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