The Top 3 Canadian Dividend Stocks for 2020

Description

Now that tax-selling season is behind us, it is time to look forward. Which stocks have the potential to be the best dividend stocks in 2020? Let’s take a look.

First we’ll focus on Canadian Dividend Aristocrats. These are companies that have raised dividends for at least five consecutive years.

As well, companies must yield at least 3% to make sure the income it generates exceeds the rate of inflation. Finally, some growth is needed, as we don’t want to invest in companies whose prospects are declining.

With that in mind, here are three of the top Canadian dividend stocks that should be at the top of your list for 2020.

Toronto-Dominion Bank

By their own standards, Canada’s big banks struggled in 2019. However, you can’t make a top dividend list without including at least one of Canada’s Big Five banks.

Although it slots in at number three on my top bank list, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) edges its competitors for a number of reasons.

First, it has the best dividend growth rate among its peers and currently trading at a 13% discount to its historical average. This is the second-biggest price-to-historical P/E average among the Big Five.

Like clockwork, the banks always return to the mean, which means that TD has a clear path to double-digit gains.

TD Bank has proven to be one of the most reliable banks in recent years, and its growth profile is second to none. It also has the highest dividend growth rate of the group, and with one of the lowest payout ratios in the sector, it's a trend that is likely to continue.

Canadian Utilities

If you're going to make a list of the top dividend stocks in Canada, one should add the best dividend growth stock in the country. At 48 years and counting, **Canadian Utilities** (TSX:CU) will be the first Canadian company to reach Dividend King status (50 years of consecutive dividend growth).

As of writing, it currently yields an attractive 4.32% and is expected to once again raise dividends in the first couple of weeks of January.

It also has an attractive dividend growth rate in which it has averaged approximately 10% over the past three and five years. Although utilities were bid up quite a bit in 2019, Canadian Utilities remains one of the more attractively priced options despite gaining approximately 25% in 2019.

The company is currently trading at 10.8 times earnings and has an enterprise value to EBITDA of 11.32, well below the industry and its own five-year averages.

Pembina Pipeline

Midstream companies are some of the best income stocks in the country. Although they are susceptible to the price of commodities, they are less impacted, as cash flows are underpinned by long-term, take or pay contracts. This helps insulate them from an oil and gas bear market.

At the top of my list is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). With average annual returns of 17%, it has been the best-performing company in the industry over the past decade.

Will it continue this dominance over the next decade? It certainly has the potential to do so.

A rich pipeline — no pun intended — of growth opportunities will drive earnings and cash flow growth in the low teens over the next few years. It's also not averse to making transformational acquisitions and is led by a top notch management team.

Combine its attractive 4.94% yield and mid-single digit dividend growth with its overall prospects and you have an attractive income stock to hold for the next year, and decade.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:PPL (Pembina Pipeline Corporation)
5. TSX:TD (The Toronto-Dominion Bank)

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