TFSA Investors: 2 Dividend Stocks That Can Double Their Payouts

Description

Are you looking for some great stocks to put into your Tax-Free Savings Account (TFSA)? You should start by looking at dividend stocks, specifically those that normally raise their payouts. A growing dividend is important to ensure that the recurring income is protected from inflation. But even many dividend-growth stocks can be underwhelming, raising their payouts by a modest 1% annually for the sake of keeping their streaks going.

That's why an important factor to consider is also how much room dividend stocks have to grow their payouts, as that can help predict if you'll see much of an increase in the future. The two stocks listed below have ample room to support significant increases to their dividend, and it wouldn't be surprising to see their payouts double within the next 10 years:

Canadian National Railway (TSX:CNR)(NYSE:CNI) currently pays its shareholders a quarterly dividend of $0.575, or $2.30 every year. With diluted earnings per share of $4.77 over the past four quarters, CN Rail's payout ratio is below 50% right now. Its dividend yield of 1.6% looks fairly modest, but there's definitely a lot of potential for those payouts to rise in the years to come.

Five years ago, CN Rail was making quarterly dividend payments of $0.313, which the company has increased by 84% since then, averaging a compounded annual growth rate (CAGR) of 12.9%. At that rate, it would take roughly six years for the railroad operator's dividend payments to double.

CN Rail has reported a profit in each of the past 10 quarters, and it's been able to do well even amid the coronavirus pandemic, demonstrating its versatility and stability during these challenging times. Year to date, its stock is up more than 20%, easily eclipsing the TSX and its 2% decline over the same period.

Laurentian Bank (TSX:LB) may seem like an odd choice to make this list since it slashed its dividend payments earlier this year. Amid the coronavirus pandemic, the bank reduced its quarterly dividend payments from $0.67 to just $0.40.

It's a contrarian bet to make, but especially now that there's a possible light to the end of the pandemic with a vaccine potentially on the way, there's reason for some optimism ahead for financial stocks like

Laurentian. And once things in the economy improve, Laurentian will likely be eager to get those payouts back up and bring investors back. Dividends, after all, are one of the main reasons investors buy shares of bank stocks. Laurentian's cut was rare — previously, the last time a Canadian bank reduced its payouts was in the early 90s.

Even with the rate cut, Laurentian stock is yielding 5.6% today. In 2015, investors were receiving quarterly payments of $0.56 from the company. Laurentian would go on to hike its dividend payments by 19.6% over the next five years, averaging a CAGR of 3.7%. Normally, at that rate, you would expect it may take around 20 years for the dividend payments to double. However, Laurentian's future rate hikes, once they resume, will likely be much more aggressive to help make up for the big cut it made this year.

With a great yield already, Laurentian could be a solid dividend stock to add to your portfolio while it's at a low.

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3. TSX:LB (Laurentian Bank of Canada)

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