2 Top Dividend Growth Stocks to Buy in 2021

Description

Dividend growth stocks are stocks that pay dividends and increase their dividend payouts each year. One of the perks of dividend income is that when you own stocks with a history of steadily increasing their cash payments to shareholders, you get an income stream that increases in amounts that can easily exceed the inflation rate.

Canadian Tire Corp (TSX:CTC.A) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) are two stocks have been increasing their dividend at a rate much higher than the inflation rate in the past 10 years. Indeed, these two top dividend growth stocks have increased their dividend at a rate of more than 15% in the past 10 years.

Canadian Tire Corp

Canadian Tire is a dividend growth stock that should be more liked. The iconic Canadian retailer was beaten down in February and March during the coronavirus pandemic. Many investors have likely dismissed the company's resilience and its rock-solid balance sheet, which remains better than most other retailers a year after the start of the pandemic.

With a strong e-commerce platform, Canadian Tire will has what it takes to emerge from this pandemic in a position of deep digital strength. The retailer saw online sales growth of 178% in the third quarter.

Additionally, as shopping malls remove restrictions in a post-pandemic environment, Canadian Tire could be one of the few retailers capable of pulling all cylinders through its omnichannel presence.

Canadian Tire has a dividend compound annual growth rate of 18.4% in the past 10 years, which is quite impressive. The retailer increased its dividend in November as it reported higher profits and income. It hiked its dividend by 3.3%, from $1.1375 to $1.175 per share. While the dividend yield is just 2.6%, this yield will keep increasing over the years as Canadian Tire raise its dividend. The retailer payout ratio is just 45%, so there is room for more hikes.

Plus, Canadian Tire stock is performing well, with a return of 27% over one year. The stock is cheap, with a forward P/E of 12.8.

Canadian National Railway

Canadian National Railway is among the most solid dividend growth stocks trading on the **TSX**. Its cash flows are extremely safe and reliable. Indeed, railways are an essential infrastructure that generates considerable economic activity for Canada and the United States. This mode of transportation is still the most efficient and environmentally friendly way to ship large quantities of goods and that won't change anytime soon.

CN has a forward P/E of 23, a decent valuation for a railroad. Given the stable cash flows and defensive nature of the company, this stock is reasonably valued.

The dividend yield, at 1.6%, is small but is growing fast. CN has a dividend compound annual growth rate of 15.6% in the past 10 years. There is still plenty of room for long-term dividend increases, as CN's payout ratio is just 47%. CN stock has also delivered consistently strong returns over the years.

Its one-year return is 23%, which is quite high. CN is a great stock to buy and hold over many years. You'll get both strong dividend growth and price appreciation with this stock.

CATEGORY

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2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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