3 Top Dividend Stocks With Market-Beating Potential

Description

Often, investors assume that investing in dividend-paying companies means they will have to sacrifice some of the upside available in non-dividend companies. While it is true that most growth companies prefer to reinvest capital into the business, there are dividend companies that have market-beating potential. In this article, I will discuss three top dividend stocks that can beat the market this year and any year in the foreseeable future.

This renewable energy stock is a top pick

One of the industries that is sure to see massive upside in the coming years is renewable energy. Companies like **Tesla** and **Plug Power** are seeing massive buying pressure due to the potential in the electric vehicle and hydrogen fuel cell spaces. However, renewable utilities remain a major concern. Without being able to change that industry, electrification will never make as big of an impact as we hope.

With that said, **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) remains my top choice in the industry. With an active portfolio of assets capable of producing more than 19,000 MW of power, Brookfield Renewable has made moves over the past year that will bring that figure up to 23,000 MW. The company has done an excellent job in surpassing its long-term goals since its inception.

Since 2003, Brookfield Renewable has returned 20.04% on an annual basis compared to a 5.24% annual return by the **S&P/TSX** over the same period. Renewable energies are going to keep growing, and this is a must-have stock in your portfolio.

The most reliable industry in Canada

With that heading, many could assume I'm talking about the banking industry. Yes, the Big Five banks are very well respected among Canadian investors. However, the Canadian rail industry is just as impressive. Led by **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Canadian Pacific Railway** (TSX:CP)(NYSE:CP), the two hold a strong duopoly in Canada.

Founded in 1919 and 1881, respectively, no other rail company poses a threat to these two giants. Some investors say driverless trucks may end the rail industry, but there remains no active solution in that regard. In fact, Canadian National has proposed the concept of turning to one-man crews and autonomous operations in the future. If it is successful in doing so, Canadian National may continue to grow as it has for the past century.

Canadian Pacific, however, has been prioritizing the shift towards renewable energies. It recently started construction on a large solar energy project that is expected to produce more energy than its headquarters requires. This indicates that the company is led by forward-thinking management.

Both stocks have a strong history of outperformance. Canadian National has returned more than 17% on an annualized basis since 1996. This beats the S&P/TSX by a large margin, which has returned about 5% on an annual basis over the same period. Canadian Pacific is also faring very well, having returned about 17% since 2001. Over that period, the TSX has also returned about 5% annually. These numbers may not sound very high, but a $10,000 investment in 2001 would be worth nearly $200,000 today.

Foolish takeaway

Investors looking to add dividend companies to their portfolio do not need to sacrifice big gains. Companies like Brookfield Renewable Partners, Canadian National Railway, and Canadian Pacific Railway are excellent examples of dividend stocks that have market-beating potential. I own one of these companies already and expect to add the other two in the future. How does your portfolio look?

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1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:CP (Canadian Pacific Railway)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:CNR (Canadian National Railway Company)
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