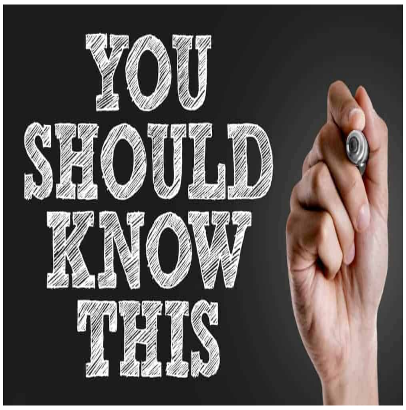

2 of the Best Canadian Dividend Growth Stocks to Buy on the Way Down

Description

Canadian National Railway (TSX:CNR)(NYSE:CNI) and **Alimentation Couche-Tard** (TSX:ATD.B) are two of the more misunderstood dividend growth stocks on the **TSX** these days. Both firms may not have the most bountiful yields in Canada, but I'd argue it's hard to contend with their longer-term dividend growth trajectories.

CN Rail and Couche-Tard sport yields of 1.89% and 0.78%, respectively. Not very attractive until you view their low-risk earnings growth profiles that could realistically allow each firm to more than double its payout over the next decade. Over the past five years, CN Rail and Couche-Tard have averaged around 13% and 22% in annualized dividend growth, respectively.

As the COVID-19 pandemic abates and we enter the early-to-mid stages of the next bull market, I believe both companies can grow their dividend payouts at an above-rate rate such that yields based on today's invested principal can double in as little as six years.

The real power of Canadian dividend growth stocks

For instance, CN Rail's dividend could grow such that your principal could yield nearly 4% in six years, while Couche-Tard's could surpass 1.5% in as little as five years. Like fine wines, such dividend growers become better and more bountiful with time.

And if you're a young investor, a sizeable investment in each name can play a huge role in financing your passive income stream in retirement, as their dividends can continue building upon themselves like a snowball rolling down a mountain.

Now that you've got a better gauge of the type of dividend growth and how it can help fund your future retirement fund, let's have a closer look at each name to see which is a better fit at today's levels.

CN Rail

It’s hard to imagine a firm out there with a wider moat than CN Rail. Once the **Kansas City Southern** deal goes through, CN Rail will have a rail network that will span the Canada-U.S. and U.S.-Mexico borders. While the almost US$34 billion price paid for Kansas City Southern has acted as a huge overhang on CN Rail stock over the past several weeks, I still think investors should not hesitate to back up the truck on this latest dip while they still can.

The stock is down nearly 13% from its all-time highs, as investors grappled with potential value destruction from the CN-KSU tie-up. I think the market is making a huge mistake by throwing CN Rail in the penalty box.

It’s virtually impossible to grow one’s rail network in a meaningful way without acquiring a competitor. Given the regulatory hurdles in the rail scene, I’d argue that a CN-KSU deal could be one of the last.

Moreover, such a deal is likely could accelerate CN Rail’s dividend growth in the “Roaring 2020s” environment. As investors warm up to the deal, I expect CN Rail stock to surge to new all-time highs. In the meantime, investors can lock in the near-2% yield as CN looks to integrate KSU’s invaluable network.

Couche-Tard

Couche-Tard (TSX:ATD.B) is a convenience store giant that’s also soured with Canadians this year, thanks to acquisition worries. Couche-Tard failed to acquire French grocer Carrefour—a deal that investors and French regulators hated from the get-go.

Despite no deal happening, investors had punished shares as though the deal did happen. Although the stock has regained most of the ground lost from its first-quarter correction, I still think it isn’t getting the credit it deserves.

Couche is a proven earnings grower, and it’s a likely candidate to double its net income and dividend over the next five years, as it looks to bounce back from the COVID-19 pandemic. The company has cash and credit to make a massive deal in 2021. Whether it’ll be in the c-store space or grocery industry is anybody’s guess. If a deal in the former industry happens, Couche stock could finally break out to new highs.

In any case, I view the dividend as one of the growthiest on the TSX Index. As such, contrarians should look to scoop up shares while shares are depressed over M&A jitters. The stock trades at 14.8 times earnings, which is far too cheap for a firm with a proven track record of growing earnings and dividends in a low-risk fashion.

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