2 Top Canadian Stocks With Dividend Growth Potential

### Description

Dividend growth stocks don't get as much credit as they deserve. Sure, it's nice to have a high yield right off the bat with some of the +6% yielders out there. That said, by foregoing upfront yield, one stands to gain so much more over the long haul in terms of capital gains and dividend growth.



So, if you're a young investor who may not need passive income in the now, it makes more sense to opt for lower-yielding firms with track records of raising their dividends at +8-10% rates annually.

## Dividend stocks with above-average growth potential

Undoubtedly, many higher-yielding dividend stocks are lacking on the growth front. And because their yields are rich, shares may have a premium slapped on, as some of the safer high-yielders tend to be in high demand with the passive income crowd. So, if you don't need the income, there's no sense in paying up for it, especially since a lack of growth prospects could hurt your total returns over the long haul.

In this piece, we'll look at two of my favourite Canadian stocks with dividend growth potential.

## CN Rail

**CN Rail** (TSX:CNR)(NYSE:CNI) isn't just one of the widest moat companies out there; it has some of the best long-term dividend growth prospects. Whenever you can snag shares on a dip, you'll get a slightly higher dividend yield and will be setting your future self up for a very bountiful retirement down the road.

At writing, shares of the popular railway titan yield 1.8%. Not exactly a high dividend yield. When you consider that the firm has averaged almost 13% worth of annualized dividend growth over the past years, it becomes more apparent that CNR stock is actually a great play to power your passive income portfolio through the years and decades.

Sure, you could grab a 6-7% safe yield from a pipeline stock that's growing at a similar rate. But in terms of the predictability of dividend growth trajectories, it's tough to match CN. You see, unlike the pipelines, which may find themselves up on the wrong side of a secular move away from fossil fuels, CN's business is unlikely to be disrupted over the next 20 plus years. If anything, the rails should see an increase in business, as they produce lower emissions per pound of volume moved.

Over the next decade and beyond, I think CN's dividend growth trajectory will remain in the 10-15% range. I can't say the same for some other less predictable dividend growth stocks. And for that reason, CN Rail is a must-buy for young investors on any weakness. The recent **Kansas City Southern** sell-off, I believe, is a great buying opportunity for those looking to punch their ticket to a comfortable retirement in the decades down the road.

## Emera

**Emera** (TSX:EMA) is a Canadian utility that's made major moves to become more regulated in nature. A higher degree of regulation makes Emera's dividend growth trajectory more predictable and its earnings of higher quality. Indeed, Emera isn't too exciting of a company, and other than quarterly reports, you're probably not going to see the name make headlines regularly.



The business is highly predictable, and as one of the more robust bond proxies on the **TSX Index,** shares of the name are a great addition to a portfolio that wants the perfect mix of yield today and dividend growth for the future.

Currently, shares sport a 4.4% yield. That's more than double that of CN Rail. With an average of just over 8% in annualized dividend growth over the past five years, you'll get a bit less dividend growth versus the likes of the top Canadian rail. That said, the dividend growth rate is quite impressive, given how rich the upfront yield is.

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joefrenette