



2 Stocks to Buy Now That Could Deliver Double-Digit Dividend Growth in 2022

Description

Dividend investors are constantly searching for top TSX stocks that deliver reliable dividend growth over the long term. Unique circumstances have put significant excess cash on the balance sheets of some industry leaders, and big dividend increases should be on the way.

Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is a giant in the Canadian oil and gas sector with a market capitalization of \$62 billion.

The company owns production assets across the spectrum of the oil and gas industry. It is well known for its oil sands, conventional heavy oil, conventional light oil, offshore oil, gas liquids, and natural gas facilities.

The natural gas holdings are of particular interest for the future, as countries around the world switch from coal and oil to natural gas for power generation. Natural gas emits far less carbon dioxide when burned. Ideally, the world will get to the point where renewables provide all the electricity needed. That will take a long time, and battery technology needs to improve to the point where enough power can be stored to cover demand spikes.

CNRL is a profit machine at current oil and natural gas prices. In the Q2 2021 earnings report, the company said it expects full-year free cash flow to be as high as \$7.8 billion. The surge in energy prices in recent weeks might be enough to push free cash flow above \$8 billion this year.

CNRL is using excess cash to reduce debt and buy back shares. The board raised the dividend by 11% for 2021 on an outlook that anticipated oil and gas prices at lower levels than where the sector has been for most of the year. The distribution increase in 2022 should be at least in line with 2021 and could potentially jump to 20% with oil and gas prices expected to remain high through next year.

Investors who buy the stock at the current share price can pick up a 3.5% yield.

Royal Bank

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is another profit machine. Canada's largest bank by [market capitalization](#) reported fiscal Q3 2021 net income of \$4.3 billion.

The bank gets revenue from a variety of segments in the financial sector, including personal banking, commercial banking, capital markets, wealth management, investor and treasury services, and insurance.

In 2015, Royal Bank spent US\$5 billion to buy California-based City National, a commercial and private bank catering to corporate, institutional, and high-net-worth clients. The move was Royal Bank's big shift back into the U.S. market after a previous attempt in the retail segment didn't work out very well.

The bank is currently sitting on excess cash that it built up last year to cover potential defaults due to the pandemic. Royal Bank released \$638 million of provisions for credit losses in fiscal Q3 2021. This suggests the company's customers are making their payments. Royal Bank can use the extra cash for share buybacks, acquisitions, or dividend hikes.

The Canadian banks should get the green light to raise dividends again next year. Royal Bank could easily give investors a total annualized increase of at least 10% to make up for the freeze on distribution increases imposed by the government in 2020.

The current payout provides a 3.25% yield.

The bottom line

CNRL and Royal Bank are leaders in their respective industries and should deliver solid dividend growth in 2022. If you have some cash to put to work in a dividend portfolio, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:RY (Royal Bank of Canada)

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