2 TSX Stocks That Could Boost Dividends by 20% in 2022

Description

A number of top TSX stocks are expected to raise dividends in a big way next year. Some could hike the payout by at least 20%.

Suncor

Suncor (TSX:SU)(NYSE:SU) slashed its dividend by 55% to protect cash flow early in the pandemic. The move was reasonable at the time, but investors punished the stock for messing with a payout that most people thought would be safe during the downturn. Suncor had previously raised the distribution annually for several years, even during the Great Recession and through the oil crash in 2014-2015.

A rebound in oil prices that began last fall has triggered a massive turnaround in the cash flow and profitability of oil producers. Two of Suncor's oil sands peers raised their payouts by double digits in 2021. Suncor decided to use excess cash this year to reduce debt and repurchase shares. That strategy will likely continue in 2022, but the board is also expected to boost the payout. It wouldn't be a surprise to see Suncor increase the dividend by at least 20% next year, especially if oil prices hold or extend the 2021 gains.

The refining and retail operations will benefit from increased fuel demand in the next 12 months, as airlines ramp up capacity and commuters head back to the office.

Suncor's share price remains unloved compared to other big names in the sector. That could change in 2022 if the company reinstates a good chunk of the dividend it removed in 2020. The current dividend provides a yield of 3%.

TD

TD (TSX:TD)(NYSE:TD) generated strong adjusted net income in the most recent quarter. Looking ahead to 2022 and beyond, the bank is set to benefit from anticipated hikes in interest rates in Canada and the United States. TD is sitting on a significant pile of excess cash it set aside to cover potential pandemic losses due to loan defaults that haven't materialized. The aid programs put in place by the governments on both sides of the border helped homeowners and business people make their payments over the past two years.

Canada just announced it will not extend several of the programs that are set to expire this month. It wouldn't be a surprise to see bankruptcies start to tick up in 2022, but TD has a good idea of which customers are most likely to default and has the capital to take the hit.

In fact, TD finished fiscal Q3 with a CET1 ratio of 14.5%. That's significantly above the 9% required by the government. Analysts widely believe TD and its peers will return a large portion of their excess funds to shareholders through large dividend increases and share buybacks as soon as they get the approval to restart those programs.

TD's long-term compound annual dividend-growth rate leading up to the pandemic was above 10%. With that number in mind, it wouldn't be a surprise to see a 20% increase in 2022 to make up for the increases that were missed due to the government's ban on bank dividend hikes put in place in 2020.

TD's current payout provides a yield of 3.5%.

The bottom line on top dividend stocks

Income investors should see large dividend increases from Suncor and TD in 2022, and the hikes could be 20% or higher. The stocks trade at reasonable prices today, given their strong profit outlooks and could deliver some nice upside when the dividend increases are announced.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SU (Suncor Energy Inc.)
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