Canadian Stocks: Why Don’t All Companies Pay Dividends?

Description

Dividend stocks have always been a favourite investment among Canadians. There is a tonne of advantages to owning Canadian dividend stocks, and there’s no question that some of the best long-term investments pay attractive dividends.

No matter how much of a growth investor you are, you’ll always want to earn some passive income. And some of the best growth stocks in Canada pay a dividend, even if the yield isn’t that significant.

But not every stock pays a dividend. There are plenty of Canadian stocks today across numerous industries that don’t return any cash to investors. You may be wondering, why don’t all stocks pay dividends?

Small-cap and early-stage Canadian stocks almost never pay dividends

Companies will pay dividends when it makes sense for them to do so, and they are in a strong enough financial position. Often, small-cap stocks or early-stage companies that are still growing won’t be paying any cash back to investors until their business is more established.

That’s why the best Canadian dividend stocks are companies that have been in business for years. These are large-cap stocks with well-established businesses that earn tonnes of consistent and recurring cash flow, such as a telecom stock like **BCE** or an energy infrastructure stock like **Enbridge**.

Why don’t growth stocks pay a dividend?

Often Canadian growth stocks, especially ones that are growing their operations rapidly, won’t pay dividends because it doesn’t make sense for them to do so. For these companies, it makes much more sense to keep any cash they have to invest in growth.

In fact, these companies are often burning through cash, whether that’s to ramp up production to reach better economies of scale or to increase their research and development of certain products.

For example, **Shopify** stock has been growing for years, yet it’s still planning to spend tonnes of capital over the coming years both on research and development but also on building out a fulfilment network. So, it would make no sense for Shopify to start paying a dividend, despite the fact it’s worth nearly $100 billion.

Most growth stocks usually need more cash and are typically issuing more shares, more debt or both to raise that capital. That’s part of the reason that these stocks have been so impacted lately as interest rates rise. The growth potential of these stocks is now going to become more expensive. Therefore, the stocks have unsurprisingly sold off.

Usually, it’s better that these Canadian stocks don’t pay dividends because they can find more growth themselves by investing internally. Even Warren Buffett’s company **Berkshire Hathaway** doesn’t pay a dividend because it makes more sense to allow Buffett to invest that cash himself rather than returning it to investors.

Bottom line

Although Canadian dividend stocks are excellent long-term investments, great core portfolio stocks and some of the best businesses to buy for your portfolio, there are often other high-growth stocks that don’t pay dividends but are still worth an investment.

And eventually, as these stocks gain in value and establish their operations, and, typically, as their growth potential slows down, you can expect them to begin paying back cash to investors.

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