Passive-Income Investors: 3 Dividend Stocks I'd Buy Today

Description

Building a source of passive income is the goal for many investors. There are many ways you can do that, but buying dividend stocks may be the most common. There's a relatively low barrier to entry, and investors can remain very liquid. Although investing in dividend stocks is much easier, in my opinion, than investing in growth stocks, many investors still get this wrong. There are very specific things you should be on the lookout for. In this article, I'll discuss three dividend stocks I'd buy today.

Buy a utility stock

When looking for dividend stocks, I first turn to the utility sector. This is because utility companies tend to receive a very stable and predictable source of revenue. That makes it very easy for those companies to plan dividend distributions in the future. **Fortis** (TSX:FTS)(NYSE:FTS) is an excellent example of this. It provides regulated gas and electric utilities to over three million customers across Canada, the United States, and the Caribbean.

Fortis's recurring revenue has helped it become one of the most reliable dividend stocks in Canada. It has managed to increase its dividend distribution in each of the past 47 years. That means that Fortis has continued to grow its distribution through the Great Recession and the COVID-19 pandemic. If I could only buy one dividend stock today, I'd likely go with Fortis.

Railway companies could be a good choice

Passive-income investors should also consider buying shares of a railway company. In Canada, the railway industry is dominated by two large enterprises. Both of those companies have established very formidable presences with track spanning coast to coast. Although I'd say both companies are worth taking a look at, if you could only buy one of them, I'd suggest investing in **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

The reason I'd recommend Canadian National over its peer is that this company has shown a much stronger history of dividend payment. Over the past 25 years, Canadian National has managed to increase its dividend distribution. That's more than double the dividend-growth streak of its industry peer. With a dividend-payout ratio of about 37%, Canadian National could continue to comfortably increase its dividend over the coming years.

Think of companies with good cash flow

Overall, dividend investors should focus on buying shares of companies with excellent cash flow. **Alimentation Couche-Tard** (TSX:ATD) is an example of such a company. You may not have considered this stock much at all, but its business is actually very appealing. Alimentation operates over 14,000 convenience stores across 14 countries. What's interesting about this is usually customers don't walk into a convenience store to browse. They're usually there out of necessity. That keeps the cash flowing well over at Alimentation.

Over the past five years, Alimentation Couche-Tard has managed to grow its dividend at a very impressive rate (CAGR of 19.6%). It has also managed to increase its distribution in each of the past 11 years, putting it among the elite dividend stocks in Canada. If you're interested in a dark horse stock for your dividend portfolio, consider Alimentation Couche-Tard.

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