3 Canadian Dividend Stocks That Beginners Should Consider Right Now

Description

When you are new to investing, searching out stocks with big dividend yields can be tempting. However, it can also be dangerous. Stocks with outsized dividend yields often have higher business risks. The market compensates for this by dropping the stock price and increasing the yield.

New investors are better off looking for stocks that consistently and reliably grow dividends. A consistently growing dividend signals that a business is also regularly and thoughtfully growing cash flows and earnings per share as well.

A combination of dividend income and resilient growth can make for a very good long-term investment. Here are three top Canadian dividend stocks that should be able to do that for years to come.

CN Rail stock: A long-term track record of dividend growth

Canadian National Railway (TSX:CNR) certainly does not pay a large dividend. Its stock only yields 2% today. However, that masks the fact that it has grown its dividend annually by a 14.5% compounded rate over the past decade! In fact, its dividend is 290% larger today than it was in 2012!

Its railroad network is impossible to recreate, and it provides an economically essential service. This gives it a competitive moat and strong pricing power. CN has a new chief executive officer focused on maximizing efficiency, consistency, and profitability.

So far, it has executed very well. Now, given the economic environment, the company gave weaker-than-expected guidance for 2023. It expects earnings growth to essentially be neutral with 2022. Several commentators believe it is just being extremely conservative.

As a result, there could be upside if this dividend stock can exceed those targets. The company has a good balance sheet and great assets. Even if growth is to slow in 2023, it is likely to recover to a high single-digit range in 2024 and beyond.

Fortis: A defensive dividend stock

Fortis (TSX:FTS) stock could be considered a step up for a little bit higher dividend yield. This stock yields closer to 4%. While it may not have the same growth profile as CN, it earns extremely defensive income.

Fortis's dividend is supported by a portfolio of regulated transmission and distribution utilities across North America. It is growing steadily due to a conservative, low-risk capital-spending plan. Fortis is investing over $22 billion over the next five years to expand its grid capacity, increase safety and efficiency, and reduce its carbon footprint.

It expects to grow its rate base by 6% compounded annually over this time. Its dividend should grow annually by around 4-6% as well. Given Fortis's solid balance sheet and a 49-year history of consecutive dividend increases, it has a high chance to hit its targets.

Granite REIT: A top real estate bet for long-term income

Have you ever thought about owning real estate for an investment? Why not consider owning a real estate investment trust (REIT)? You get to own some of the best quality real estate in the world without having to manage it yourself.

Granite REIT (TSX:GRT.UN) is one of the most defensive REITs on the TSX. It operates a large portfolio of industrial properties across Canada, the U.S., and Europe. Industrial real estate has been a very strong asset given trends like e-commerce, near-shoring, and just-in-case inventory.

Granite expects to grow funds from operation per unit by around 8% for 2022. Given strong market dynamics and a large development pipeline, it could keep this up in 2023.

The REIT stock has increased its annual dividend consecutively for 13 years. It pays a 3.75% dividend, which is highly sustainable, especially when considering it has an industry-leading balance sheet.

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1. TSX:CNR (Canadian National Railway Company)
2. TSX:FTS (Fortis Inc.)
3. TSX:GRT.UN (Granite Real Estate Investment Trust)

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