A Little-Known Dividend-Growth Stock to Watch in August

Description

CCL Industries (TSX:CCL.B) is quite possibly the best dividend-growth stock that the average investor has never heard of. Despite posting impressive dividend growth and capital appreciation over the years, the name has remained under the radar, mostly because the company is in one of the driest, most boring industries out there.

For those unfamiliar with the name, CCL manufactures labels, containers, printable products, inventory management, and loss-prevention solutions. Most people think there's little to no opportunity to be had in the ridiculously dull business of making packaging labels. However, the company has averaged 22.3% in annual revenue growth over the last five years, with 35.1% averaged growth to its net income, all while posting high double-digit ROE numbers that have hovered around 20%.

While indeed boring, packaging labels are necessary, and they'll continue to be in high demand, as firms across various packaged good industries look to differentiate themselves from one another through the use of branding.

CCL is an industry leader with an exceptional management team and a business that's more diversified than many investors give it credit for. The company posted a slight beat back in the first quarter, and with Q2 numbers on tap on August 8, the company could have a chance to break through its strong ceiling of resistance at around $68, where the stock currently sits.

While the stock is the perfect "boring" addition to any long-term retirement fund that aims to score above-average results over time, I believe that it'll be that much harder moving forward to improve on the efficiency front. Over the last decade, CCL has brought its gross and operating margins up considerably, and given the trajectory, I think there's only so much juice you can squeeze from the lemon.

At the time of writing, the stock trades at 23.1 times next year's expected earnings and 14 times EV/EBITDA, both of which are higher than their respective five-year historical averages of 19.9 and 13.4.

While CCL is a wonderful business that's been doing almost everything right, the valuation is a bit stretched, and the easy money may have already been made. As such, I find it'll be hard to break through the $68 ceiling of resistance, unless the company pulls a rabbit out of the hat when its next round of earnings come due.

I'd recommend adding CCL to your watch list for now, should the name pullback to a more attractive valuation with better technicals. Should CCL fall short of expectations come August 8, get ready to get some skin in the game.

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