Warren Buffett’s Favourite Canadian Dividend Stocks Just Got Cheaper

Description

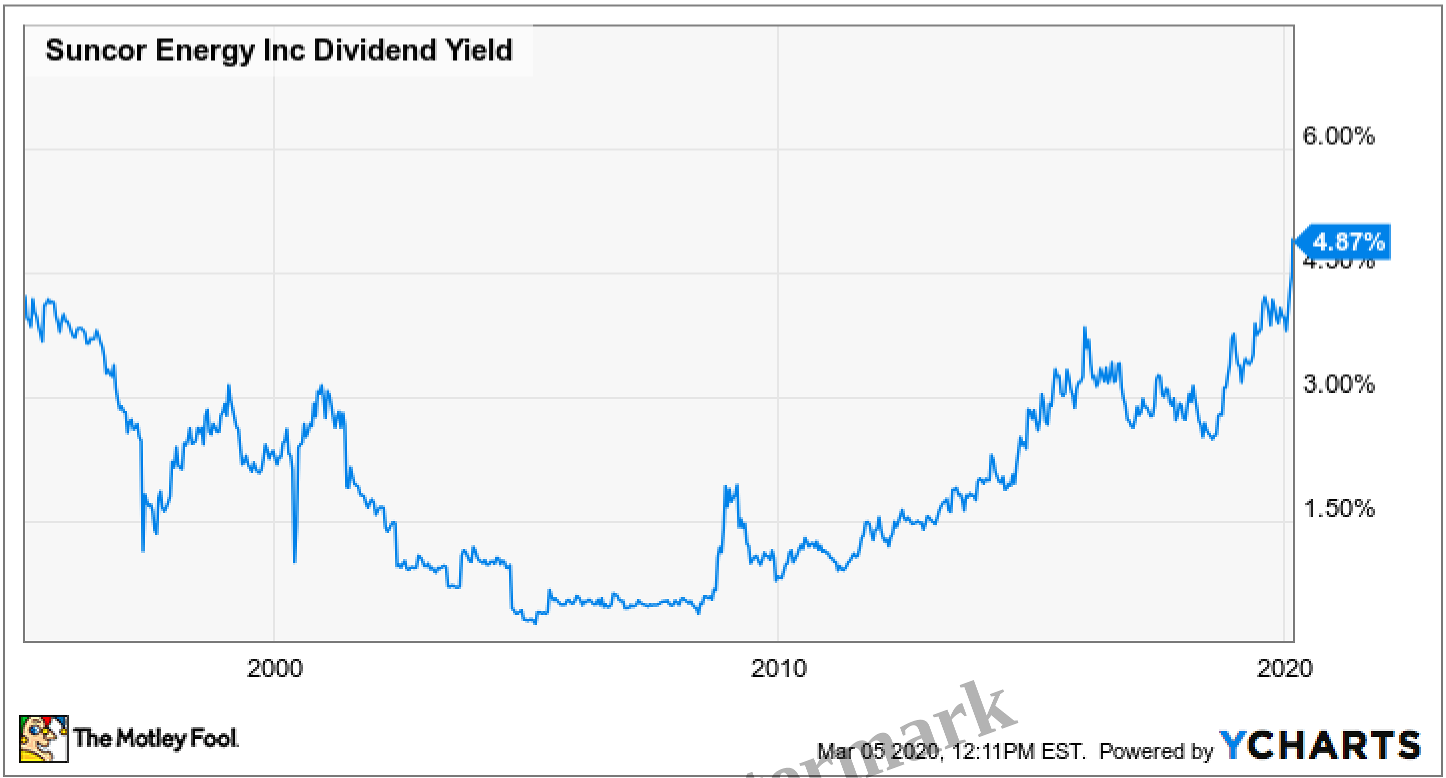
The market correction in the last couple weeks has made Warren Buffett’s favourite Canadian dividend stocks more attractive.

At the end of 2019, Buffett held more than US$395 million worth of **Suncor Energy** (TSX:SU)(NYSE:SU) stock and over US$468 million worth of **Restaurant Brands** (TSX:QSR)(NYSE:QSR) stock.

You can depend on safe dividend income from both stocks. Their cheaper prices boosts their dividend yields, providing greater dividend income to investors today.

Suncor stock yields 5.3%

The correction in Suncor stock along with its dividend increases over time have now pushed its yield to 5.3%. This is an all-time high yield for the stock, as shown in the chart below.



SU Dividend Yield data by YCharts.

Suncor has increased its dividend consecutively for 17 years with a 10-year dividend-growth rate of almost 19% to boot! Its earnings and free cash flow covers its dividend.

Although it’s easy to get enticed by such a high yield from a blue-chip company, it’s important to point out Suncor stock’s higher-beta price action. For instance, it just corrected 20% compared to the 7% decline of the Canadian stock market.

To take advantage of this volatility, it boils down to investors being able to withstand the bumpy share price and having to time the market. That is, they’d need to buy Suncor stock at a low and sell it at a high and view collecting any dividends in between as a bonus. I believe this would be better than employing a buy-and-hold strategy for Suncor.

Also, understand that the timing cannot be perfect. Therefore, you’d probably get a better average cost basis by buying into a position over time.

Restaurant Brands stock yields 3.8%

At under $74 per share at writing, Restaurant Brands stock trades at a price-to-earnings ratio of under 20. This is a good valuation to pay for the dividend stock that offers strong growth.

Specifically, its global expansion opportunity across its three restaurant brands, Burger King, Tim Hortons, and Popeyes Louisiana Kitchen, can drive earnings-per-share growth of 9-11% per year over the next three to five years.

Restaurant Brands's system-wide sales will grow over the long term. Last year, they rose more than 8%, thanks to a higher net restaurant count (up 5.2%) and consolidated higher comparable sales across its restaurants.

It has been increasing its dividend in its growth journey, too. Since 2015, it has more than tripled its dividend from US$0.62 to US$2.08 per share!

Restaurant Brands is a cash cow that generates stable cash flow to protect its dividend. Particularly, its 2019 payout ratio was 64% of free cash flow.

Buying the stock at current levels should provide ample upside and secure dividends. At the recent quotation, it offers a 3.8% yield. Moreover, analysts have a 12-month price target that's 43% higher!

Investor takeaway

Investors should do well by buying Suncor and QSR stocks at the current, undervalued levels. They will get nice dividend income and incredible upside potential over the next few years — assuming they can withstand the volatility.

Between the two, Restaurant Brands stock is more conservative given the nature of its business. If you are risk averse, choose Restaurant Brands over Suncor.

Consider more dividend stocks at rock-bottom prices!

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kayng