2 Dividend Aristocrats for Income Investors to Buy Right Now!

Description

Until some time back, heavy equipment rental companies were seen as a quick fix for unexpected orders or challenges that would prop up during infrastructure and construction activity. The last decade saw infrastructure and construction companies incorporate rentals as part of their overall strategy.

However, today, as the world adjusts to a normal where lockdowns could be declared at a moment's notice, the rental play will become very important to companies, as they move away from a wholly owned model.

Contractors will look at well-established players in the field with excellent track records when it comes to quality and consistency. Here are two companies that have been in this space for a long time and will benefit the most from the new world order.

A Canadian Dividend Aristocrat

Toromont Industries (TSX:TIH) is a Dividend Aristocrat in the industrial space. The company has increased its dividend payout for the last 30 years, and though you might think that a yield of 1.68% is not very attractive, think again. As fellow Fool Adam Othman pointed out, the company has a 10-year CAGR of 19.36%.

Toromont operates in two segments: heavy industries and refrigeration. It reported its results for the second quarter of 2020, and sales were down 13% at $849.6 million compared to the same period in 2019. Product support, rental, and equipment sales were all down by 15%, 31%, and 8%, respectively, due to lower economic activity because of the pandemic.

April was particularly bad, as some recovery occurred in May and June. Backlogs were at $496.5 million compared to $551.5 million in 2019.

Toromont has a large number of mining clients, and some of them have reduced or suspended activity due to the pandemic. As they start opening up, Toromont's business will also pick up. Analysts have given the company a target price of $76, just over 3% from its current level. However, I believe that as lockdowns open up and economic activity resumes, the stock will reach much higher levels.

A heavy equipment giant with a 4% dividend yield

Finning International (TSX:FIT) sells, operates, and rents heavy equipment in Canada, South America, and U.K., and Ireland. The company saw a 29% drop in year-on-year revenues to $1.4 billion for the six months ended June 30, 2020.

One area of concern for Finning is South America where COVID-19 infections are on the higher side. South American revenue decreased by 28% in the quarter compared to 2019. New equipment sales were down 48% thanks to the pandemic, which resulted in "lower mining and construction deliveries in Chile and a slowdown in customer activity in Argentina."

The company says, "Infection rates in Chile increased through the quarter and began to flatten at the end of June, and decreased further in July." This means South America should have a better Q3 than Q2.

The U.K. and Ireland saw a reduction of 45% in quarterly revenues. The U.K. was one of the first markets to get affected and one of the first to recover as well with July orders approaching pre-COVID levels. Finning is confident that the U.K. and Ireland will be profitable and will continue the momentum through the second half of 2020 and into 2021. Finning's backlog remains relatively stable at $700 million.

The stock yields a healthy dividend of almost 4%, and analysts have given it a target of $22.5 — upside of over 10%. The stock should easily cross the target as business picks up.

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Date
2025/08/15
Date Created
2020/08/18
Author
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