Buy These 2 Dividend Stocks When Their Dividend Growth Is Horrible

Description

Normally, dividend investors want strong dividend growth. So, it's a bit counter-intuitive to think to buy certain dividend stocks when their dividend growth is horrible. However, when their dividend growth is bad is when it's a great time to buy their stocks.

Here are two examples that are this kind of dividend stock.

Buy this dividend stock when its dividend growth is "horrible"

CCL Industries' (TSX:CCL.B) dividend growth of 5.9% was "horrible" last year. Please allow me to explain. For many dividend stocks, a consistent dividend growth of about 6% per year would be pretty good.

However, for a Canadian Dividend Aristocrat that has increased its dividend for 19 years straight and has a 15-year dividend growth rate of 16%, a 6% dividend growth rate is pretty horrible in relative terms. The "small" dividend hike of 2020 was the cue to buy CCL Industries!

During the pandemic last year, the packaging and containers company fell as low as $25 per share. From the bottom point, it has already climbed all the way past the pre-pandemic level and set new highs! That's almost three times investors' money.

Even if you looked for a safer entry point after the stock recovered some from the bottom and settled at about $45 per share, you'd still be sitting on a price appreciation of more than 50%.

Where does the stock stand today? The easy money has been made, but it's still fairly valued. So, if you absolutely love the quality company, you could nibble here. However, consider loading up the stock when its dividend growth is "small."

Buy this dividend stock now

Suncor Energy (TSX:SU)(NYSE:SU) stock's case is more extreme. Before the pandemic, it was a Canadian Dividend Aristocrat for keeping years of dividend growth. However, to be prudent, management decided to cut its dividend by 55% to preserve capital.

That is horrible news for long-term investors that were in for that income stream. As a result, the energy stock is still greatly depressed from pre-pandemic levels. Specifically, it trades at a discount of approximately 38% from its 2020 high of about $42.50 per share.

The stock could recover to about $35 per share over the next few years, especially if it starts increasing its dividend again. If so, it'd have an upside potential of approximately 32% on top of the dividend returns shareholders will receive. Currently, the stock yields almost 3.2%, which is pretty decent.

Suncor's balance sheet remains in good standing and was awarded an investment-grade S&P credit rating of BBB+. However, to achieve the roughly $35 price target, it'd likely require the cooperation of energy prices and management's willingness to restart dividend increases.

The Foolish takeaway

For CCL Industries and Suncor Energy, their dividend returns seem to be bonuses that complement their total returns potential. Investors should therefore buy the stocks with less focus on their dividends and more focus on total returns.

Between the two, Suncor Energy appears to be a better buy at the moment. Management's resumption of the energy stock's dividend growth down the road could be a catalyst to reignite a more sustainable rally in the cyclical stock.

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