2 Dividend Stocks With Strong Upside in 2021

Description

Every stock has a purpose. There are high-growth stocks that only give capital appreciation. Then there are dividend stocks that offer high dividend yields and little capital appreciation. And in both cases, it is the early adopters who take the returns. But here I bring to you two dividend stocks that were beaten down during the pandemic as they cut their dividends. But now, they are on the road to recovery, presenting an upside potential in 2021. This is a once-in-a-decade opportunity to get capital appreciation from dividend stocks.

Suncor Energy stock

Suncor Energy (TSX:SU)(NYSE:SU), Canada's largest integrated oil company, was beaten down during the pandemic. The sudden lockdown brought transportation to a halt, pulling down gasoline and the petroleum demand and creating an excess oil supply. The oversupply went to such an extreme that Suncor and other oil companies temporarily stopped oil extraction to address existing inventory. Suncor more than halved its dividend in May 2020 to preserve cash, as it had to sell its oil inventory at a loss.

Now, as the economies reopen, travel could see a huge pent-up demand. That could drive oil demand to the pre-pandemic levels. There are also concerns about rising inflation, as the government pumped too much money into the economy. Commodities like oil are feeling the effect of this inflation. WTI crude has increased above the 2019 levels to US$68.9 a barrel. The overall outlook for oil remains positive, which means the outlook for Suncor remains positive.

Suncor cut costs during the pandemic, which will help it accelerate profits as oil price rises. The company could share this profit with its shareholders by accelerating the dividend-growth rate. Suncor stock has already surged 43.4% year to date. This type of capital appreciation is remarkable for a dividend stock. It has a further upside of 30% if the stock returns to its pre-pandemic level of $40.

RioCan stock

Another beaten-down sector was retail and hospitality. The lockdown forced all non-essential stores to close down for a long time.

RioCan REIT (TSX:REI.UN) is the second-largest retail REIT in Canada. Its huge exposure to non-essential retail stores made it a nightmare for the REIT, as it struggled to collect rent. Some of its customers cancelled their leases permanently and closed their businesses.

It was the government rent subsidy that saved the day. As the lockdown eases, all types of non-essential stores are reopening. The rental income is returning. The stores whose occupants left are now reopening with new occupants. The REIT is also increasing its rent in line with inflation, creating a recovery environment.

RioCan stock has already surged 32% year to date. The stock hasn't seen such steep growth since 2013. It has a further upside of 27% if the stock returns to its pre-pandemic level of $27.7.

Foolish takeaway

The stock market is a zero-sum game where one gains on others' loss. If you are late in the game, you are on the losing end.

The recovery rally will fade as the two stocks reach their pre-pandemic level. **Enbridge** and **SmartCentres REIT** are the biggest examples. They recovered fast, rising 23.6% and 28.5% year to date, because they survived the pandemic without dividend cuts. If you missed their recovery, Suncor and RioCan are giving you another chance to enjoy a 25% upside in 2021 and a 2.7-4.4% dividend yields for a lifetime.

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SU (Suncor Energy Inc.)

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