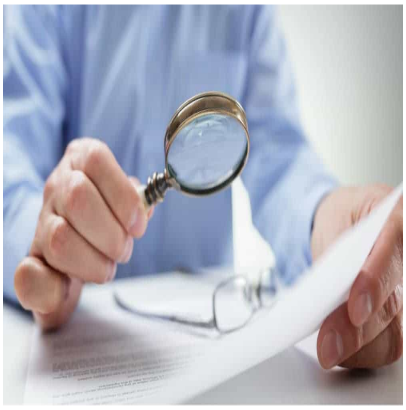

Top 2 Canadian Dividend Stocks to Watch in October 2021

Description

Dividend investing is a safer way of earning returns from the stock market. I recommend this form of investing to all investors — the young, old, risk takers, and risk averse. Good dividend stocks give a cushion to risk takers by balancing their risky bets with quarterly or monthly dividends. As for risk-averse investors, they act as a source of passive income.

Here are two dividend stocks to watch out for in October:

- **BCE** (TSX:BCE)(NYSE:BCE)
- **Suncor Energy** (TSX:SU)(NYSE:SU)

Here's why.

BCE stock

Many of you use BCE's wireless or wireline services. This is because BCE has the largest communications infrastructure that reaches out to millions of Canadians. The company is now rolling out the 5G infrastructure at an accelerated pace. Hence, it is diverting its cash flow on capital expenditures, which surged 34% year over year in the second quarter.

BCE has also secured 5G leadership by acquiring 37% of the 3.5 gigahertz spectrum the government gave to national carriers. The 5G infrastructure will lead to autonomous cars, smart cities, drones, and robots. Like 4G changed the way people use the internet (video calling, live streaming on mobile), 5G will change the way people live. The 5G opportunity is several-fold bigger than 4G.

The dividend angle of BCE

5G will not only enable BCE to pay higher dividends but also increase its stock price. I don't expect any significant dividend growth for the next two years, as it is using excess cash to build 5G infrastructure. The stock could compensate for slow dividend growth with stock price growth. This year, the stock surged over 20% till September 5, before correcting over 5%. This has created an opportunity to buy the stock at a discount and lock in a 5.54% dividend yield.

Suncor Energy stock

Energy and finance stocks dominate the Canadian stock market. After all, Canada is the world's fourth-largest oil producer and exports 98% of oil to the United States. Suncor is the biggest beneficiary of Canada's topography. Suncor does everything related to oil — from extraction to production and refining to retailing it as jet fuel, gasoline, and petroleum products.

The pandemic nightmare forced Suncor to slash dividends by 55% in May 2020, as oil prices went negative due to oversupply. The oil price later flattened at US$35/barrel. As the world economies reopened, pent-up demand in travel and increased factory production has revived oil demand. WTI crude has jumped to the 2014 level of US$82/barrel. OPEC expects oil demand to grow above the pre-pandemic level in 2022.

These are plus points for Suncor stock and could help it reach the pre-pandemic level of $40 — 37% upside.

The dividend angle of Suncor

Suncor wants to compensate shareholders for the May 2020 dividend cut. Hence, it has charted out a plan to increase dividends at a compounded annual growth rate (CAGR) of 25% in the 2022-2025 period, assuming the WTI price is US$55/barrel.

Suncor plans to increase free funds flow by $2.15 billion through margin improvements, capital cost reductions, and growth opportunities. As per the plan, significant dividend growth will be visible in 2024 and 2025. You invest in stocks that have future growth potential. A cyclical stock like Suncor is at the beginning of an uptrend. This is the right time to buy the stock.

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2. Energy Stocks
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