3 Dividend Aristocrats You Shouldn't Buy for Dividends

Description

When it comes to dividend stocks, Dividend Aristocrats are a breed apart. The kind of dividend sustainability and surety of payouts they offer is quite difficult for other dividend stocks to mimic. Even with the low threshold for becoming a Dividend Aristocrat in Canada, most dividend aristocrats are blue-chip companies with a well-established position in the market and stable revenue streams.

And this attracts a lot of investor attention, which sometimes results in decent growth. And as the stock's value rises, it pushes the very thing down (often too much) that attracts most of the investors in the first place, that is, yield. But that's not necessarily a bad trade-off.

A transport company

TFI International (TSX:TFII)(NYSE:TFII) would have been an amazing buy in 2019, when the stock was trading at a modest $35 per share, despite representing one of the largest transportation companies in North America (owners of extensive truck fleets). If you had bought the company then, you would have grown your capital by 293% by now.

But even if you didn't buy this Dividend Aristocrat, consider buying it after the next correction. The company, even though it's not fundamentally overpriced, has risen too far and too fast thanks to the post-pandemic recovery momentum combined with the e-commerce boom.

This rapid ascent has also pushed the yield down to 0.85%. A correction is overdue, and once that's over, and the stock has fallen to a more realistic level, it would be an amazing buy for long-term growth potential.

A real estate company

If you are looking for a Dividend Aristocrat that offers more consistent growth than TFII (albeit with an even lower yield), **FirstService** (TSX:FSV)(NASDAQ:FSV) might be the company for you. This U.S.-leaning Canadian company has grown into North America's largest property management company, with more than 8,500 communities under its banner.

And that's just the FirstService residential — one division of the company. Its other business division, FirstService Brands, brought in 51% of the revenue in the last quarter.

The company's growth has been phenomenal but also organic. Its financials grew with it, and its powerful growth potential — as evidenced its five-year compound annual growth rate (CAGR) of 35.8% — might be sustainable, making it a promising long-term growth stock.

An alternative financial company

Goeasy (TSX:GSY) has always been a powerful growth stock, but the post-pandemic growth momentum has turned it into a superlative version of itself. The stock grew almost 643% from its crash valuation to its 2021 peak, and it has not yet entered a true correction phase. The company caters to a market neglected/disregarded by banks and other conventional lenders, that is, people with relatively bad credit.

This is a risky but apparently highly rewarding business because, despite a six times market value growth, the company is still trading at a price-to-earnings of 14.4. The dividend yield of 1.36% is better than the other two stocks on this list, and if you take the dividend growth into account, the stock looks even more attractive. The company has grown its payouts by 3.6 times since 2017.

Foolish takeaway

These three Dividend Aristocrats should not be considered for their dividends but their wild growth potential. Even though they technically are great growth stocks, that return potential is paltry compared to the capital growth they offer, which is capable of doubling your original capital in less than five years.

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2. Investing

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3. TSX:FSV (FirstService Corporation)
4. TSX:GSY (goeasy Ltd.)
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Date
2025/08/20
Date Created
2021/11/03
Author
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