Millennials: Start a Retirement Portfolio With These Oversold Dividend Stocks

Description

The stock market is giving young investors a rare opportunity to buy some of Canada's top dividend-growth stocks at very reasonable prices.

Here are the reasons why I think **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are solid picks to start a retirement portfolio.

CN

CN is one of the few stocks investors can buy and simply forget about for decades.

The company holds a dominant position in an industry that has both limited competition and huge barriers to entry. In fact, the odds are pretty much nil that someone will build a competing rail line along CN's routes.

The stock has pulled back about 15% in the past year as investors fret about the ongoing oil crisis and a challenging economic environment. The short-term concerns are certainly valid, but CN is doing very well despite the headwinds, and better days will prevail.

The company recently reported solid Q4 2015 results. Net income jumped 11% compared with the same period in 2014 and diluted earnings per share rose 15%. That's pretty good considering the fact that shipments were flat or down in most of CN's business segments.

How did management do it?

CN is a very efficient business. The company reduced its operating ratio from 60.7% in Q4 2014 to 57.2% in the most recent quarter. The metric is important because it indicates how much revenue the company is using to run the business.

CN is also getting a nice boost from the strong U.S. dollar because a significant amount of its earnings are generated south of the border.

The company just raised its dividend by 20%, and the stock boasts an average dividend-growth rate of 17% per year going back to 1996.

That's an impressive streak and one that should continue in the years to come.

Enbridge

Enbridge is another dividend-growth champion that is finally trading at a reasonable level.

The broader sell-off in the energy space has hit Enbridge's shares, but the move looks overdone. Enbridge isn't an energy producer; it simply transports oil and gas from the point of production to the end user and takes a fee for the service. Therefore, the moves in commodity prices have little direct impact on the company's earnings.

The market is worried about long-term growth, especially if WTI oil is destined to remain at US$30 per barrel. I don't think oil can stay this low for an extended period of time, and Enbridge has a large backlog of projects to carry it over until the market recovers.

In fact, the company expects to complete $25 billion in fully secured infrastructure developments by 2019. These will drive revenue and free cash flow higher, and investors should see strong gains in the dividend as a result.

Enbridge is targeting a 14% per-year growth rate in the dividend through 2019, so investors who buy now are looking at some nice returns in the coming years. The current payout already yields 4.9%.

CATEGORY

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1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
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