2 Undervalued Technology Stocks for Your RRSP

Description

Registered retirement savings plans (RRSPs) are great for saving and investing for retirement. When you deposit money in one, you reduce your income for the year. In so doing, you reduce your income taxes for the year.

You can invest your money and grow your retirement fund in RRSPs without the hindrance of taxes. You won't get taxed until you withdraw from it.

Since stocks historically give higher returns than other investments, it makes sense to invest stocks in RRSPs. The long time horizon until retirement reduces your investment risk.

Another way to reduce your risk is by buying financial strong companies that are undervalued. In fact, if you buy U.S. stocks that pay qualified dividends, you won't experience a foreign withholding tax on those dividends if they're held in RRSPs.

Right now, these quality U.S. IT stocks are undervalued.

Cisco Systems, Inc. (NASDAQ:CSCO) is an international supplier of data networking equipment and software. The company has a high S&P credit rating of AA- and a debt-to-cap ratio of about 25%.

For the fifth consecutive year, Cisco has raised its dividend. In fact, since 2011 Cisco has raised it at a compounded annual growth rate of 60%! However, investors shouldn't expect that kind of monstrous dividend growth to continue because its payout ratio has expanded from 7% in 2011 to about 45% today.

Cisco increased its quarterly dividend by 23.8% last month from US$0.21 to US$0.26 on a per-share basis. The company's earnings per share are expected to grow 5-7% in the medium term.

So, the technology giant might increase its dividend roughly 5-9% in the medium term. Whether it raises it at a higher rate or not depends on if it expands its payout ratio.

At US$26.70 per share, Cisco offers a strong yield of 3.9%. If you hold it in a non-registered account, you'll only receive a little over 3.3% because of the foreign withholding tax. You'll have to file for a foreign tax credit at tax-reporting time.

If you hold it in a tax-free savings account, it's even worse because 15% is withheld and lost forever.

Apple Inc. (NASDAQ:AAPL) is another discounted tech giant. The company has a high S&P credit rating of AA+ and a debt-to-cap ratio of about 32%.

Apple has raised its dividend for four consecutive years. It last increased its quarterly dividend by 9.6% this month from US$0.52 to US$0.57 on a per-share basis. The company's earnings per share are expected to grow about 11% in the medium term.

At US$92.50 per share, Apple offers a yield of 2.5%. If you hold it in a non-registered account, you'll only receive a little over 2.1% because of the foreign withholding tax. So, hold it in an RRSP to receive the full dividend.

Conclusion

Investors can buy Cisco and Apple in their RRSPs today and collect full dividends from them. Both companies trade below a multiple of 12 and are undervalued.

However, Cisco would be really undervalued if it falls to US$23 or lower for a yield of 4.5% or higher. Likewise, Apple would be really undervalued if it falls to US$80 or lower for a yield of 2.8% or higher.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

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2. NASDAQ:CSCO (Cisco Systems Inc.)

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Date
2025/08/13
Date Created
2016/05/12
Author
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