Should Enbridge Inc. or Royal Bank of Canada Be in Your RRSP?

Description

Canadian investors used to have it easy when it came to retirement planning.

In the old days a graduate could look forward to finding full-time work with a decent salary and a healthy pension plan. Today, the coveted defined-benefit pensions are quickly disappearing, and most young people are lucky to find work with any retirement benefits at all.

As a result, Canadians are increasingly responsible for their own retirement planning, and many are using the RRSP to help them achieve their retirement goals.

Which stocks should you buy?

The best companies have long track records of dividend growth that's supported by rising revenues. Ideally, they also hold leadership positions in their respective industries.

With this thought in mind, let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one is a better RRSP pick right now.

Enbridge

Enbridge operates the world's longest oil and gas liquids pipeline network.

Some analysts are concerned the oil rout might slow demand for new infrastructure. That is likely the case in the near term, but Enbridge has enough work on the go to keep it busy until the energy sector recovers.

In fact, Enbridge plans to complete $18 billion in new assets over the next three years. As the pipelines go into service, the company should generate enough additional revenue and cash flow to support annual dividend increases of at least 8%.

If the oil sector stays under pressure for an extended time frame, Enbridge has the financial capacity to grow through acquisitions.

The stock currently offers a yield of 3.9%.

A $10,000 investment in Enbridge just 15 years ago would be worth $106,000 today with the dividends reinvested.

Royal Bank

The Canadian banks are facing some economic headwinds, but Royal Bank continues to deliver solid results.

The company earned just under $10 billion in 2015, and this year's numbers are on track to meet or exceed that milestone. Net income for fiscal Q2 2016 came in at $2.5 billion, up 3% compared with the same period last year.

Royal Bank has a diversified business model with revenue coming from personal and commercial banking, insurance, wealth management, and capital markets activities.

When one group has an off quarter, the others often make up the difference.

Royal Bank is turning to the U.S. to drive future growth. The company purchased California-based City National last year for US$5 billion in a bid to expand into the private and commercial banking sector south of the border.

City National is already contributing to the company's wealth management earnings, and investors should see strong results from the division in the coming years.

Royal Bank's dividend currently offers a yield of 4.2%. The bank's dividend growth has been very strong, but analysts expect smaller distribution hikes going forward as low interest rates continue to put pressure on margins.

A $10,000 investment in Royal Bank 15 years ago would now be worth $57,000 with the dividends reinvested.

Which should you buy?

Both stocks are great long-term holdings for any RRSP account. If you only have the cash to buy one, I would go with Enbridge today. The energy company probably offers more upside potential for dividend growth in the medium term, and the stock should continue to rise on the back of a recovery in the oil sector.

CATEGORY

1. Bank Stocks
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2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
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