Should Toronto-Dominion Bank or Enbridge Inc. Be in Your RRSP?

Description

It’s tough being a young Canadian right now, especially when it comes to retirement planning.

What’s going on?

The Boomers and most members of GenX found decent jobs right after graduation, and companies generally offered them a comfortable pension plan as part of the compensation package.

Today the Canadian employment market is a very different place.

Young people are forced to work for free on multiple “internships” before anyone will hire them, and most millennials consider themselves fortunate to find a contract position, let alone a full-time gig with some health benefits.

And a pension? That’s becoming a pipe dream.

This means Canadians are responsible for setting aside their own retirement funds, and many are using the RRSP to build their nest eggs.

Where should you invest?

Young people have time on their side, so dividend stocks tend to deliver the best results. By reinvesting the distributions in new shares, investors can tap the power of compounding and potentially turn a modest initial investment into a significant pool of retirement savings.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are good examples of how the system works. Let’s take a look at the two companies to see if one is a better RRSP pick right now.

TD

TD is probably the safest pick among the big banks due to its focus on retail banking.

The company gets 61% of net income from its Canadian retail business and another 25% from the branch network in the United States.

The strong presence in the U.S. offers investors a nice hedge against economic turbulence in Canada, and a rising greenback against means every dollar of profit earned south of the border currently converts to a juicy $1.30.

Some analysts are concerned the energy rout and an overheated housing market are going to hammer the banks. TD has less than 1% of its total loan book directly exposed to oil and gas companies, so there is little concern on that front.

As for housing, TD’s Canadian residential mortgage portfolio is about $248 billion. That’s a big number, but 53% of the loans are insured, and the loan-to-value ratio on the remainder is 58%. This means the housing market would have to correct significantly before TD starts to take a material hit.

TD raised its dividend by 8% earlier this year. The current payout offers a yield of 3.9%.

A $10,000 investment in TD just 15 years ago would be worth $50,000 today with the dividends reinvested.

Enbridge

Enbridge is a pipeline giant with assets in Canada and the United States.

The oil rout means demand for new energy infrastructure will likely slow down in the near term, but Enbridge has a large enough project backlog to keep it busy.

In fact, the company expects to complete $18 billion in new infrastructure over the next three years. As the those assets go into service, Enbridge should see strong enough revenue and cash flow growth to support annual dividend hikes of at least 8%.

If the oil sector remains under pressure for an extended time frame, Enbridge is large enough that it can grow through acquisitions.

The stock currently pays a dividend yield of 3.9%.

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

Which should you buy?

Both stocks are solid long-term holdings for any RRSP. If you only have the cash to buy one, I think Enbridge offers better potential dividend growth and stock-price appreciation over the medium term.

CATEGORY

1. Bank Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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