2 Buy-and-Hold Dividend Stocks for RRSP Investors

Description

Canadians are searching for top stocks to add to their RRSP portfolios.

Let's take a look at **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they are attractive picks.

CN

The North American rail industry is working its way through a difficult period in the economic cycle, but CN continues to deliver strong results.

The company generated Q2 2016 net income of $858 million, or $1.10 per share, which was in line with the same period last year. Revenue was down in most of the company's business segments, but efficiency gains and a strong U.S. dollar helped offset the sales slump.

The superficial results might not motivate investors to hit the buy button, but there are other numbers in the report that make this stock very appealing.

CN is a cash machine, and management is very generous when it comes to handing out the profits to investors.

The company delivered $1.17 billion in free cash flow in the second quarter, up from $1.05 billion in Q2 last year. Companies use free cash flow to pay dividends and repurchase shares, both of which are beneficial to shareholders.

Revenue growth might be on hold for the moment, but the executive team isn't overly concerned about earnings. CN raised its dividend 20% earlier this year and plans to increase its payout ratio.

The big boost in the distribution isn't odd. In fact, the company has raised the dividend by an annual growth rate of about 17% over the past two decades.

Long-term investors have done well with this stock, and there is little reason to believe the trend won't continue.

How well have investors done?

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

Enbridge

Enbridge is another name that generates tons of cash flow.

The company has a variety of investments in the areas of energy infrastructure and electricity generation, but liquids pipelines are the heart of the business.

Enbridge essentially acts as a tollbooth, collecting fees for transporting oil and gas liquids from the point of production to the end user. Contracts are long term in nature and tend to be with large producers who have stable balance sheets.

The oil rout has some pundits concerned that demand for new infrastructure will dry up. That could be the case in the near term, but Enbridge has $26 billion in projects under development to keep it busy while the energy sector recovers.

As the new assets go into service, revenue and cash flow should increase enough to support annual dividend growth of at least 8% over the next three or four years.

If the difficulties in the energy patch persist, Enbridge is large enough it can drive additional growth through acquisitions.

What about returns?

A $10,000 investment in Enbridge 15 years ago would be worth $96,000 today with the dividends reinvested.

Is one a better pick?

Both stocks are strong RRSP candidates.

Earlier in the year I would have picked Enbridge as my first choice, but the stock has enjoyed a nice rally in recent months, and that has removed the advantage. At this point, it’s probably a draw between the two names.

CATEGORY

1. Dividend Stocks
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