Is Bank of Montreal or Canadian National Railway Company Better for Your RRSP?

Description

Canadian investors are looking for top stocks to help them save for retirement.

Let's take a look at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if one is a better pick.

Bank of Montreal

Canada's oldest bank offers investors a diversified revenue stream that is attractive in the current environment.

The company gets the largest chunk of its income from Canadian personal and commercial banking activities, but wealth management, capital markets, and a strong U.S. retail presence also contribute.

Bank of Montreal has been building its U.S. operations since the 1980s through acquisitions and organic growth. The group now includes more than 500 branches and 14,500 employees primarily located in the U.S. Midwest.

Adjusted net income south of the border rose 22% in fiscal Q3, as compared with the same period last year, driven by a strong American dollar and the recent addition of GE Capital's transport finance business.

Bank of Montreal has paid a dividend every year since 1829. The current distribution provides a yield of 3.9%.

CN

CN might be the Canadian company with the widest moat. The railway is the only operator in the industry that can offer clients a connection to three coasts, and the likelihood of a competitor building new lines along the same routes is pretty much nil.

The competitive advantage is significant, but management works hard to ensure the railway operates as efficiently as possible in order to maximize margins.

This focus on lower costs is part of the reason why the company continues to deliver solid numbers despite a slowdown in revenue.

CN reported Q2 2016 net income of $858 million, or $1.10 per share. That’s pretty much in line with the Q2 results in 2015.

Free cash flow remains robust, coming in at $1.17 billion for the quarter–up handily from $1.05 billion last year. This is an important metric because companies use free cash flow to pay dividends and buy back shares.

CN has a fantastic track record when it comes to dividend growth. The company raised the payout by 20% earlier this year and has hiked the distribution by an average of 17% over the past two decades.

Some investors look at the 1.8% yield and simply move on, but that can mean a missed opportunity, especially if you plan to hold the stock for the long term.

CN isn’t as cheap as it was back in January, but investors with a buy-and-hold strategy should do well over the long haul.

Is one a better RRSP pick?

Both stocks are strong choices for any RRSP account. I would have given CN the edge earlier in the year, but the stock has rallied nearly 20% year-to-date, so the advantage is probably gone.

At this point, I’d say it’s a coin toss between the two companies.

CATEGORY

1. Bank Stocks
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1. NYSE:BMO (Bank of Montreal)
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3. TSX:BMO (Bank Of Montreal)
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