



## RRSP Investors: 2 Top Dividend Stocks to Help You Reach Your Retirement Goals

### Description

Canadians are searching for quality investments to help them save for retirement.

Let's take a look at **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) to see why they might be attractive picks today.

#### CN

CN owns the only rail network in North America that touches three coasts.

This gives CN a strong competitive advantage, but the railway doesn't sit back and rely on its large moat. In fact, management works hard to drive as much efficiency into the operation as possible, and progress on the cost side of the business is helping support earnings during a difficult time.

CN reported Q2 2016 net income of \$858 million, which is slightly lower than the \$886 million it earned in Q2 2015. On a per-share basis, net income was flat at \$1.10.

The results don't sound overly impressive, but the company managed to maintain earnings despite a 9% drop in year-over-year revenue.

#### How?

CN's Q2 2016 operating ratio came in at a record 54.5%—down nearly 2% from the same period last year. The metric indicates the company's operating costs as a percentage of revenue, so a drop in the number is a sign of improved efficiency.

The American dollar also helped. CN generates significant revenue south of the border, and the strong greenback, combined with lower costs, offset the weaker top-line numbers.

Long-term investors know economic activity goes through cycles, and CN will ride out the current downturn. As long as cash flow is strong and dividend hikes are steady, shareholders are happy to

stay on board.

CN raised its dividend by 20% earlier this year and has increased the payout by about 17% on an annualized basis over the past 20 years. The current yield is 1.8%.

Free cash flow for the first half of 2016 came in at \$1.17 billion compared to \$1.1 billion for the same period in 2015, so the important numbers are moving in the right direction.

Patience pays off when it comes to this stock. A \$10,000 investment in CN 15 years ago would be worth \$105,000 today with the dividends reinvested.

## **Bank of Montreal**

Investors often sidestep Bank of Montreal when looking for a financial pick, but this stock deserves more respect.

Why?

Bank of Montreal has a balanced revenue stream with attractive retail operations on both sides of the border, as well as strong wealth management and capital markets divisions.

The American business includes more than 500 branches primarily located in the U.S. Midwest. The bank has been in the region since the 1980s and has grown both organically and through strategic acquisitions.

Adjusted net income from the U.S. group jumped 22% to \$289 million in fiscal Q3 2016, supported by a strong American dollar and the addition of GE Capital's transport finance business last year.

On the risk side, it's important to consider energy loans and mortgage exposure when buying the banks.

Only 2% of Bank of Montreal's total loan book is directly exposed to oil and gas companies, so there isn't too much to worry about on that front. Regarding housing, 57% of the \$101.2 billion in Canadian residential mortgages is insured, and the loan-to-value ratio on the remainder is 56%. This means house prices would have to slide significantly before the bank takes a big hit.

Bank of Montreal pays an attractive dividend with a 4% yield. The company has given shareholders a piece of the profits every year since 1829.

What about returns?

A \$10,000 investment in Bank of Montreal 15 years ago would be worth \$38,000 today with the dividends reinvested.

## **Is one a better pick?**

Both stocks are solid RRSP holdings and deserve to be in any retirement portfolio.

BMO offers a better yield, but CN will likely raise the payout more in the coming years, and that really adds up over time. Given the big rally in the banks in recent months, I would probably pick CN today as

my first choice.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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2. NYSE:CNI (Canadian National Railway Company)
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