RRSP Investors: 2 Top Dividend Stocks to Buy Right Now

Description

After a recent pullback in some top dividend stocks, Canadian investors have some good deals available to beef up their RRSP portfolios.

Banks and utilities are my two favourite segments to consider due to their solid dividend growth and their ability to bound back when markets return to their normal trading pattern. Let's have a look at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Fortis Inc.**(TSX:FTS)(NYSE:FTS) to see if they offer an attractive entry points to long-term investors.

BMO

During the past one month, BMO stock has led losses in the Canadian financial sector, falling 6.31% to $96.2 at the time of writing.

In the 2017 fourth quarter, BMO reported that its net income fell to $1.23 billion from $1.35 billion when compared to the same period a year ago after taking reinsurance claims of $112 million due to hurricanes in the U.S.

But these temporary setbacks shouldn't discourage long-term investors who want to earn steady dividend income.

BMO is considered one of the safest dividend stocks in Canada due to its unbeatable track record. The company has sent dividend cheques to investors every single year since 1829 — one of the longest streaks of consecutive dividends in North America.

With a dividend yield of ~3.75%, BMO pays a $0.93-a-share quarterly dividend. This payout has increased with an ~8% compound annual growth rate with a manageable payout ratio of 50%. During the past five years, investors who'd bought and held BMO stock made ~53% in total returns.

The other benefit of investing in BMO is that it has a diversified franchise with a solid presence in commercial, retail banking, wealth management, and capital markets. The company also maintains a strong foothold in the U.S. with more than 500 branches, mainly in the U.S. Midwest.

I think the current pullback is a good opportunity for RRSP investors to add this great name to their income-producing portfolio.

Fortis

Just like banks, Canadian utilities provide a safe avenue to investors to earn steady returns. St. John's-based Fortis is my top pick in this area.

The utility has $48 billion in assets with good geographical diversification. Fortis provides electricity and gas to 3.2 million customers in the U.S., Canada, and Caribbean countries. The U.S. accounts for more than 60% of its assets, while Canada has more than 25%, and the rest are in the Caribbean.

Fortis stock has fallen ~11% this year, giving back almost all of its gains of the past year. The losses in utility stocks have been steeper than banks, as bond yields jumped in North America, trimming their investment appeal.

At $40.85, Fortis stock is near the 52-week low. Despite this weakness, it offers a good bargain, in my view. There's nothing wrong with Fortis's business. It has a solid balance sheet and a good cash flow situation.

Fortis's latest earnings show that it is well on track to grow its profit after smart acquisitions in the U.S. Its sales jumped 24% in third quarter to $1.9 billion, while earnings per share surged to $0.66 from $0.45 a share in the same period a year ago.

Cash flow from operating activities totaled $2 billion for the nine months — an increase of 41% over the same period in 2016.

With a dividend yield of 3.9% and about 6% expected growth in its annual dividend payouts through 2021, Fortis stock is a solid addition to your RRSP portfolio. It has raised its dividend annually for more than 40 consecutive years.

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