Is Royal Bank of Canada or Suncor Energy Inc. Better for Your RRSP Today?

Description

Planning for the golden years is not something all young Canadians want to think about, but the sooner the process begins, the more likely you are to have the funds you need to enjoy a comfortable retirement.

One part of the overall retirement strategy involves using RRSPs to set aside some savings. The RRSP is an attractive vehicle, especially for Canadians who find themselves in a higher marginal tax bracket, as the contributions can be used to lower taxable income.

The RRSP is also an appealing option for people who might be tempted to dip into retirement savings to cover a purchase, as the penalties for removing funds from the RRSP serve as a nice deterrent. This isn't the case with a TFSA, however, where there is no penalty for accessing the money.

How should you use the RRSP?

An effective strategy for the RRSP involves owning dividend stocks and investing the distributions in new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time. The payouts are not taxed while the money remains inside the RRSP, so investors can use the full value of the dividends to acquire more stock.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see if one deserves to be in your RRSP today.

Royal Bank

Royal Bank reported net income of $11.5 billion for fiscal 2017. That's nearly $1 billion in profits per month!

The secret to the company's success lies in its balanced revenue stream, with strong operations in personal and commercial banking, wealth management, capital markets, and insurance.

The company made a big move to boost its operations in the U.S. in late 2015 when it acquired

California-based private and commercial bank City National for US$5 billion. The deal has worked out well, and investors could see additional expansion in the segment down the road.

Royal Bank has a strong track record of dividend growth and offers a solid yield of 3.8%.

At 13 times trailing earnings, the stock isn’t cheap, but the recent pullback from $108 to $98 per share is starting to catch the eye of investors who have been waiting for an opportunity to pick up the banking giant at a reasonable price.

Suncor

Suncor is known for being an oil sands producer, but the company also operates large refineries and owns more than 1,500 Petro-Canada retail locations. The integrated business structure provides stability when volatility hits the oil market, and the downstream assets are a big reason Suncor held up so well during the rout.

Suncor took advantage of the downturn to add strategic assets at attractive prices. The company also pushed ahead with large development projects. As a result, production is set to grow at an impressive clip in the coming years, and that bodes well for dividend increases.

WTI oil prices appear to have stabilized above US$60 per barrel, with Suncor continuing to make good progress on its efforts to reduce costs. Oil sands cash operating costs for 2017 came in at the lowest level in more than a decade.

Suncor raised the dividend by 12.5% for 2018. The stock provides a yield of 3.3%.

Is one a better bet?

Both companies are market leaders and should be strong buy-and-hold picks for a dividend-focused RRSP portfolio. At this point, I would probably split a new investment between the two names.

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