Royal Bank of Canada or Fortis Inc. for Your RRSP Today?

Description

Canadians are searching for ways to set some cash aside to fund a comfortable retirement, and holding top-quality Canadian dividend stocks inside a self-directed RRSP is a popular strategy.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see if one deserves to be on your buy list today.

Royal Bank

Royal Bank earned $11.5 billion in fiscal 2017, up 10% from 2016. That's nearly $1 billion per month in profits!

The secret to the bank's success largely lies in its balanced revenue stream, with strong contributions coming from personal and commercial banking, capital markets, wealth management, investor and treasury services, and insurance activities.

On a geographic basis, Canada generates about 61% of the bank's revenue, while 23% comes from the United States, and international operations contribute 16%.

Royal Bank's initial foray into the United States didn't end well, when it sold the retail banking operations in 2011 after a rough decade in the U.S. market. A new management team, however, saw opportunities in the United States on the wealth management side and decided to take another shot at the U.S. market when Royal Bank spent US$5 billion in late 2015 to buy California-based private and commercial bank City National. The move was made at a good time and gave the company a strong platform to expand its presence in the sector.

Royal Bank has a steady track record of dividend growth, and that should continue in step with increased earnings. The compound annual dividend-growth rate over the past decade is about 7%.

Rising interest rates have some investors concerned the banks could get hit if homeowners have tosell their properties. A flood of listings would certainly be negative for the market, but Royal Bank's mortgage portfolio is capable of riding out a downturn.

The stock has pulled back from $108 per share in January to the current price of $98. At this level, investors are paying about 13 times trailing earnings and can pick up a yield of 3.8%.

Royal Bank still isn't cheap, but investors planning to own the stock for decades might want to start nibbling while it is pulling back.

Fortis

Fortis owns natural gas distribution, electric transmission, and power generation businesses in Canada, the United States, and the Caribbean. The company gets most of its revenue from regulated assets, so cash flow should be both predictable and reliable.

Fortis made two large acquisitions in the United States in recent years, including the US$11.3 billion purchase of ITC Holdings in 2016. In addition, Fortis says it is working through a five-year $14.5 billion capital plan that should boost the rate base enough to support continued dividend growth of at least 6% per year.

The company has raised the distribution every year for more than four decades, so investors should feel comfortable with the outlook.

Utility stocks have come under pressure in recent months amid concerns that rising interest rates will drive up borrowing costs and put a dent in cash flow available for distributions. This is a valid concern, but the reaction in the market might be a bit overdone. Fortis should be able to grow cash flow enough to offset higher borrowing costs.

The stock price is down to $42.5 per share from $48 in November. That puts the current dividend yield at 4%.

Is one a better bet?

Both stocks are cheaper now than they were in recent months and should be solid buy-and-hold picks for a dividend-focused RRSP.

If you only buy one, I would probably make Fortis the first choice today. Royal Bank is a great company, but I would ideally like to see the P/E ratio on the financial giant get closer to 12 before adding it to the portfolio.

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