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

Description

Canadian investors are searching for top-quality dividend stocks to add to their self-directed RRSP portfolios.

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 is an attractive choice right now.

Royal Bank

Royal Bank earned $11.5 billion in fiscal 2017. That's right; Canada's largest financial institution makes close to $1 billion in profits per month.

This might not impress customers who think their fees are too high, but investors are certainly not complaining.

Royal Bank's success is partly attributed to the company's balanced revenue stream, with contributions coming from personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance divisions. The Canadian operations generate the bulk of the profits, but investors could see the U.S. play a larger role in the coming years.

Why?

The company moved back into the American market in late 2015 with its US$5 billion purchase of a California-based private and commercial bank, City National. The deal was done at a good time and gave Royal Bank a strong platform to expand its presence in the segment.

Royal Bank has a great track record of dividend growth, and that trend should continue with rising earnings. At the time of writing, the stock provides a yield of 3.7%.

Long-term investors have enjoyed some impressive returns. A $10,000 investment in Royal Bank 20 years ago would be worth more than $90,000 today with the dividends reinvested.

Royal Bank currently trades for 13.5 times trailing 12-month earnings, which is a bit high compared to the five-year average, but the stock rarely goes on sale, and waiting for a pullback often results in missed dividends and forgone additional upside.

Suncor

Suncor is primarily known as an oil sands producer, but the company also owns refineries and more than 1,500 Petro-Canada retail locations. These downstream assets helped Suncor navigate through the oil rout in good shape, and now that oil prices are rising again, the company is generating some impressive numbers.

Suncor reported Q1 operating earnings of $0.60 per share compared to $0.48 per share a year ago, supported by higher oil prices and improved refining margins.

The company raised the dividend by 12.5% for 2018, so management is obviously comfortable with the revenue and cash flow outlook for this year and beyond. That makes sense, as Suncor recently completed two major development projects and continues to make strategic acquisitions to boost the resource base and production.

A $10,000 investment in Suncor 20 years ago would be worth more than $100,000 today with the dividends reinvested.

Is one more attractive?

Both stocks should be solid buy-and-hold picks for a dividend-focused RRSP. If you only choose one, I would probably go with Suncor today. Oil prices appear determined to move higher, and the company’s production could increase substantially in the coming years. As a result, dividend growth might run at 10% per year or better over the medium term.

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