Produce Cash in Your RRSP Account With These 3 Dividend Stocks

Description

A rising interest rate environment is generally a headwind for dividend stocks. Why? First, income investors will move to bonds, as the corporate bond coupon rates creep up; second, high-yield dividend stocks are often high-borrowers too, which means profits get pinched as interest on borrowed money rises.

Investors with a long-term horizon can still pursue dividend stocks and do just fine — more than fine! But it's important to buy dividend stocks that also appreciate to produce capital gains.

These three dividend stocks are attractive right now because they are fair to undervalued. Buying them in equal amounts would produce an average yield of 4.63%, which will compound to produce 25% of an initial investment as cash in hand after five years.

EnerCare Inc. (TSX:ECI)

First up is EnerCare, providing shareholders with a 5.55% yield. It's an example of "high-yield + sustainable business," not "high-yield + risky business."

Homes need water heaters, which is where EnerCare slides in, as this is one of its cornerstone business segments. EnerCare has stable business for the simple matter that renting a water heater is convenient compared to owning your own water for $1,000 to $2,000 as an upfront cost (approximately three to five years of renting).

EnerCare's stock price dropped 22% from its high in April 2017 and since then there have been three interest rate hikes. The price drop was not an interest rate thing; it was a missed earnings thing! That is four consecutive quarters of missed earnings.

At current stock price levels, EnerCare has good value, and it has cash flows to pay the dividend. The next two quarters are also forecast to be strong and could turn the stock momentum around.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

The smallest of the big banks offers a sizable 4.6% dividend. I own shares of CIBC for the dividend and the fact that it has a lower P/E compared to other big banks. I'm okay with the implied higher risk.

Having recently traveled south of the border, it was very clear to me that CIBC is trying to make in-roads to diversify business: there were ads and billboards galore. As a shareholder, it wasn't an eye sore.

Manulife Financial Corporation (TSX:MFC)(NYSE:MFC)

Manulife is an insurance company, with a 3.6% yield, but did you know about its healthy wealth management business? I'm siding with Fool contributor Chris MacDonald; I agree that Manulife's Asia focus is good for portfolio diversification AND its business. Here's why.

Manulife is acting on something we've known about for many years now, although not often talked about: *there's money in Asia!*

In 2017, *Forbes* reported that Asia has 637 billionaires, more than Europe and the U.S. These ultra-rich are also relatively young, with an average age of 55 years. Who's jockeying to manage their wealth?

Here's a hint: Roy Gori ran Manulife's Asia division for two years before being promoted to CEO of the whole company. Manulife's revenue from its Asia business also speaks volumes.

Take home

Manulife rounds out my three picks that collectively produce 4.63% income annually in an RRSP, making you slowly richer, while you invest in strong business that are diverse and strong.

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