Is Royal Bank of Canada (TSX:RY) or Canadian National Railway Company (TSX:CNR) Better for Your RRSP?

Description

Owning quality dividend stocks inside a self-directed RRSP account is one way Canadians can put aside some extra cash to help fund their retirement.

RRSP contributions can be used to reduce taxable income today, and investors have the opportunity to use the full value of the dividends to acquire additional shares.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see if one is an attractive RRSP pick today.

Royal Bank

Royal Bank generated $10 billion in revenue for fiscal Q2 2018. Net income was $3.1 billion, representing a gain of 11% over the same period last year. That's some serious cash.

The company operates in a number of segments in the banking industry, including personal and commercial banking, wealth management, capital markets, investor and treasury services and insurance.

Personal and commercial banking net income increased 8% on a year-over-year basis in the second quarter. Wealth management saw double-digit net income growth of 25%. Insurance net income rose 4%, while investor and treasury services net income increased 10%. The capital markets group posted net income in line with Q2 2017.

Rising interest rates could be a headwind for Canadian mortgage growth in the coming years, and some pundits are concerned that house prices will tumble. As long as Canadian employment stays strong, the housing market should be fine. Higher rates tend to result in better spreads for the banks, so there is a positive side to the rate hike story.

Royal Bank's quarterly dividend has increased from $0.50 per share in 2011 to the current payout of $0.94. That's good for a yield of 3.7% if you buy the stock today.

CN

CN continues to invest in new locomotives, new rail cars, track upgrades, and expansions at its yards and intermodal hubs. In total, the company has a capital plan of $3.4 billion for 2018.

Railways are the economic backbone of the Canadian and U.S. economies, and CN is the only player in the business that has lines reaching three coasts. This is an important advantage, especially for intermodal and crude-by-rail shipments.

On the oil story, higher global prices are making it worthwhile for Canadian producers to use rail carriers to get their product to international markets. A recent report from the National Energy Board said crude-by-rail shipments hit a record in April. With pipeline bottlenecks expected to continue until at least 2020, CN should see demand remain strong for this segment.

CN has a great track record of dividend growth with a compound annual payout increase of about 16% over the past two decades.

Is one more attractive?

Royal Bank and CN are both market leaders in key industries, which is unlikely to change in the coming years or decades. CN has enjoyed a nice rally since March, and is trading near a new high, while Royal Bank has pulled back a bit from the January peak. If you only buy one, I would probably go with Royal Bank as the first choice today and look for an opportunity to buy CN on the next dip.

These are household names, but there are lesser-known opportunities that also deserve to be on your RRSP radar.

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Author
aswalker