2 Top Dividend Growth Stocks for RRSP Investors

Description

Canadian savers are searching for reliable dividend stocks to hold inside their self-directed RRSP portfolios.

Let’s take a look at two companies with long track records of delivering strong dividend growth and impressive returns for their shareholders.

Telus (TSX:T)(NYSE:TU)

Telus offers mobile, TV, Internet, and security products and services to homes and business right across Canada. In addition, Telus Health is the country’s leading provider of digital health solutions to physicians, hospitals, and insurance companies.

The company works hard to ensure it delivers first-rate customer service, and those efforts are showing up in the results. The company added 135,000 new customers in Q2 and reported an industry-best Q2 2018 postpaid mobile churn rate of 0.83%. Higher capital spending put a pinch on free cash flow in recent quarters, but it looks like Telus might have hit its peak spend. The business generated a 27% increase in year-over-year free cash flow to $329 million in the second quarter.

Telus consistently meets or exceeds its target of raising the dividend by 7-10% per year. The current payout provides a yield of 4.3%. A $10,000 investment on Telus 15 years ago that would be worth about $65,000 today with the dividends reinvested.

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Enbridge bought Spectra Energy last year in a $37 billion deal that created North America’s largest energy infrastructure company. The market felt somewhat uncomfortable with the balance sheet following the move, and Enbridge saw its share price extend declines. In recent months, however, the stock has rallied from $38 to the current price of $46, and more gains should be on the way.

Management is working on a strategy shift to make Enbridge more focused on regulated assets. As a result, non-core assets sales of up to $10 billion are on the slate, with $7.5 billion in deals already announced or completed. The dispositions should go a long way to address debt concerns and support ongoing growth.

Enbridge is also making changes to resolve concerns that its corporate structure is too complex. The company just announced an all-share $4.3 billion deal to buy the 17% of Spectra Energy Partners LP that it didn’t already own. Similar deals are expected for two other subsidiaries.

Enbridge raised its dividend by 10% in 2018 and currently provides a yield of 5.8%. A $10,000 investment in Enbridge 15 years ago would be worth $60,000 today with the dividends reinvested.

The bottom line

Telus and Enbridge are industry leaders with strong track records of dividend growth. There is no guarantee the next 15 years will deliver the same returns, but both companies should be attractive picks for a buy-and-hold RRSP portfolio. If you only buy one, I would probably make Enbridge the first choice. The stock still looks oversold given the progress management is making on the turnaround efforts.

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