3 TSX Index Giants to Start and Grow Your Retirement Fund

Description

Market pullbacks can be stressful, but they also tend to serve up some fantastic opportunities for buy-and-hold investors with any eye on building a substantial retirement portfolio.

Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB), Suncor Energy (TSX:SU)(NYSE:SU), and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one deserves to be on your buy list right now.

Enbridge

Enbridge recently raised its dividend by 10% for 2019 and anticipates another 10% hike in 2020. Beyond next year, the size of the increases might taper off a bit, but solid dividend growth should continue.

The company has $22 billion in secured capital projects on the go and additional organic growth opportunities should emerge across the asset base. Enbridge spent $37 billion to acquire Spectra Energy in 2017, creating an energy infrastructure giant with natural gas, oil, and natural gas liquids pipeline and distribution assets across Canada and through the United States.

Management launched a strategy shift in late 2017 that put the company on course to simplify the corporate structure and shore up the balance sheet. Progress is ahead of schedule, and the market might not be giving Enbridge enough credit for the effort.

Enbridge had originally targeted non-core asset sales of $3 billion in 2018 with a goal of monetizing up to $10 billion in the next few years. The company announced deals for $7.8 billion in 2018. Funds are being used to reduce debt and fund ongoing development projects.

The stock currently trades at $43 per share, providing a yield of 6.9%.

Suncor

The steep decline in oil prices in the past few months has hammered the Canadian energy patch. More downside could be on the way, especially if global growth fears start to spread. As such, investors should probably avoid the companies with debt problems, but a few names in the sector appear very attractive in the current environment, including Suncor.

The energy giant has a built-in hedge against falling oil prices through its downstream assets that include refineries and retail operations. This provides Suncor with steady cash flow and the company can take advantage of its strong balance sheet to buy struggling peers, as it did when it acquired Canadian Oil Sands.

Oil prices will eventually recover, and Suncor stands to benefit when that happens. In the meantime, investors can collect a nice 3.8% yield and hope for additional fire-sale opportunities to arise while oil prices remain under pressure.

Royal Bank

Royal Bank raised its dividend two times in 2018 for a total increase of 8% for the year. The current quarterly payout of $0.98 per share provides a solid yield of 4.2%.

Fiscal 2018 profits came in at $12.4 billion, representing an 8% increase over the previous year. Earnings per share rose 11%.

Rising interest rates have stoked concerns that Canadian homeowners might get into trouble and trigger a meltdown in house prices. Some people will probably have to sell, but the likely scenario is a soft landing in the housing market.

The flip side of higher rates is better net interest margins on loans and higher returns on invested funds for the banks. Royal Bank has strong operations across a variety of segments in the banking and insurance sectors that are benefitting from rate hikes, providing a balanced revenue stream from both Canadian and international business units.

The company is well capitalized with a CET1 ratio of 11.5%, so investors shouldn’t have to worry about Royal Bank’s solvency in the event of an extended economic downturn. If things get really ugly in the markets, Royal Bank could take advantage of its strength to make strategic acquisitions.

Earnings and dividend growth should continue in line with the 2018 results. At the current stock price of $93 per share, Royal Bank appears reasonably priced, if not somewhat oversold.

Is one more attractive?

Enbridge, Suncor, and Royal Bank are leaders in their industries with strong track records of dividend growth. Given the extended pullback in all three stocks, I would probably split a new RRSP or TFSA investment between them today.

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Date
2025/08/26
Date Created
2019/01/03
Author
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