Top 2 RRSP Dividend Stocks for 2019

Description

According to the latest census that polled more than 14 million households, roughly two-thirds of all Canadians are saving for retirement. *The Globe & Mail* says, “that’s a surprising display of responsible saving from Canadians of all ages, at a time when experts have lamented household debt at record highs and savings rates that have fallen dramatically since the 1980s.”

If you’re one of savers, congratulations. Hopefully, you’re taking advantage of a tax-efficient retirement account like an RRSP.

RRSP contributions deduct directly from your taxable income, meaning you’ll pay less to the government the next time you file your taxes. While many Canadians have turned to TFSA accounts (which use post-tax dollars), RRSPs are still much more popular, with more than $1 trillion in assets versus $160 billion in TFSAs. On average, RRSP account holders contribute $3,000 per year.

Because RRSP accounts grow tax-free, they’re perfect candidates for dividend stocks, as you can fully reinvest the income inside the tax vehicle. Here are my two favourite dividend stocks all RRSP investors need to know.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN)

In 2016, **Emera** decided to sell its 20% stake in Algonquin for $10.85 per share. Since then, shares have continued their decade-long run, rising to nearly $15 per share.

For a stretch of roughly 10 years, Algonquin stock has never finished a year in negative territory. Additionally, it’s never cut its dividend, which now stands at 4.8%, roughly double the TSX average.

About 75% of Algonquin’s business is highly regulated utilities in the U.S. The company serves 758,000 customers with natural gas, water, and electricity. This stable, predictable segment gives the company ample free cash flow to invest in higher-growth opportunities.

Today, only 25% of the business currently comes from its clean power segment, but this is the opportunity to pay attention to. Algonquin currently has a $7.7 billion capital program that aims to grow EBITDA by more than 15% per year, EPS by more than 10% per year, and dividends by more than 10% per year.

Seldom do you find an attractive dividend of 4.8% with numerous options for growth over a multi-year period.

Inter Pipeline (TSX:IPL)

After dropping 10% over the last 12 months, shares of Inter Pipeline now yield an impressive 8.3%.

Its business is fairly diversified, with exposure to oil sands transportation, traditional oil pipelines, NGL processing, and bulk liquid storage. This diversification has fueled dividend increases in each of the last 10 years, averaging a boost of 7% per year. In 2019, the dividend is expected to jump again to $1.91 per share.

Inter Pipeline's dividend, though high, is well covered with cash flows. In each of the past five years, fund flows from operations have always covered the payout.

Over the next few years, the company has identified 11 opportunities worth nearly $600 million that have an EBITDA payback period of only 3.2 years. Long term, it believes it has $3 billion in new oil sands opportunities alone.

While non-conventional oil projects have created difficulties for the drillers themselves, transporting the output is always necessary, no matter what the prevailing cost of oil is. If Canadian energy companies keep producing, Inter Pipeline will continue to pay its impressive 8.3% dividend.

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Date
2025/07/21
Date Created
2019/02/08
Author
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