2 Contrarian Dividend Stocks to Build RRSP Wealth Today

Description

RRSP season is here, and that has Canadian investors looking for stocks to add to their self-directed accounts.

A popular way to build retirement wealth involves buying dividend stocks and investing the payouts back into new shares. Over time, the strategy can help turn reasonably small initial investments into a large fund to support a comfortable retirement, especially if you pick up the stocks at attractive levels.

Let's take a look at two stocks that might be interesting contrarian picks today.

Inter Pipeline (TSX:IPL)

Inter Pipeline was a $30 stock five years ago. Today, investors can pick it up for about $21 per share. That doesn't sound like an appealing investment, but a closer look at the story suggests there might be reason to buy right now.

IPL reported strong results in 2018. The company generated a record $1.1 billion in funds from operations, representing a 10% increase over the previous year. Net income rose 12% to $593 million, and the company raised the dividend for the 10th straight year.

Strong results in the natural gas liquids (NGL) processing division led the way, and the company continues to see steady volumes flowing through its oil sands and conventional oil pipelines.

On the growth side, the company is making good progress on its $3.5 billion Heartland Petrochemical Complex and has a knack for making strategic tuck-in acquisitions when attractive opportunities arise in the market.

The dividend-payout ratio was 60% in 2018, suggesting the distribution should be safe, even if the company hits a rough patch.

At the time of writing, the dividend provides a yield of 8%.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

CNRL trades at $37 per share today compared to $48 last summer. As an oil and gas producer, the company has taken a hit amid the broad-based sell-off in energy stocks, but not all names in the sector are equal, and CNRL appears to be oversold.

Why?

The company has a very strong balance sheet and continues to generate attractive free cash flow. In fact, CNRL reduced its debt by $2.9 billion in the first nine months of 2018 and generated $950 million in free cash flow in the third quarter.

The Q4 numbers might not be as strong due to the drop in oil prices through the end of last year, but the rebound to start 2019 will likely result in solid Q1 results.

CNRL owns a wide variety of top-quality assets that cover the full product spectrum and management does a good job of allocating capital to maximize opportune shifts in the markets.

The company continues to buy back shares and raised the dividend by 22.5% last year. Investors who buy today can pick up a yield of 3.6%, while they wait for sentiment in the oil patch to improve.

The bottom line

IPL and CNRL pay attractive dividends that should continue to grow. The stocks appear oversold today, and patient investors who buy now could see the investments generate solid returns in the coming years.

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aswalker