2 Top Dividend Stocks for New RRSP Investors

Description

The Tax-Free Savings Account (TFSA) might be gaining in popularity, but Canadians are still using their Registered Retirement Savings Plan (RRSP) to set cash aside for the golden years.

In 2009, the arrival of the TFSA provided investors with another saving option, and the RRSP has lost some of its appeal, as the total TFSA contribution space increases. However, the RRSP remains an attractive tool, especially for people who are in higher marginal tax brackets.

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Buying dividend stocks inside the RRSP and using the distributions to purchase more shares has proven to be a rewarding long-term strategy. Let's take a look at two TSX Index stocks that might be interesting picks right now.

Telus

Telus (TSX:T)(NYSE:TU) is a major player in the Canadian communications sector providing mobile, TV, and internet services to customers across the country.

Unlike its larger peers, Telus doesn't own media assets, and this sometimes come up as a concern. So far, the lack of content control hasn't hurt the business and other investments could prove to be more profitable in the future. Telus is building a healthcare division that is already a leader in delivering digital health solutions to doctors, hospitals, and insurance companies. As disruption in the Canadian medical sector increases, Telus stands to benefit and could emerge as the dominant company in the space.

Telus has a strong track record of dividend growth and intends to boost the payout by 7-10% per year over the medium term. The current distribution provides a yield of 4.6%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry with liquids and gas pipelines that transport a significant amount of Canadian and U.S. production. In addition, Enbridge owns natural gas distribution businesses that serve thousands of households and businesses.

The company has streamlined its operations and is shifting its strategy to focus in regulated assets. This should make revenue and cash flow more predictable. The current $16 billion capital program is covered through internal funds flow, and management is targeting 5-7% growth per year in distributable cash flow beyond 2020.

The stock appears oversold right now and provides a yield of 6.1%.

The bottom line

Telus and Enbridge are top-quality companies with long histories of dividend growth. They both offer above-average yields and should be solid picks for a buy-and-hold RRSP portfolio. If you only buy one, I would probably make Enbridge the first choice today.

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