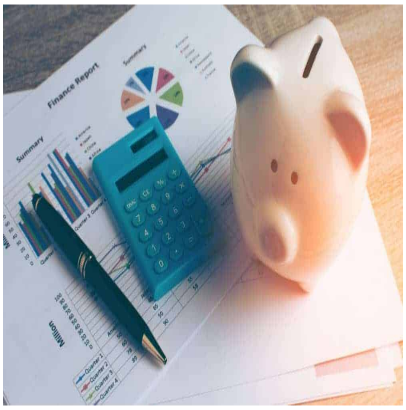

2 Cheap Dividend Stocks for a Self-Directed RRSP Portfolio

Description

Canadians are using their self-directed RRSPs to put some extra cash aside to cover living expenses in retirement.

The drop in GIC rates in the past year is making that option less attractive. As a result, self-directed investors are turning to dividend stocks to boost returns on their retirement funds.

Let’s take a look at two companies that appear cheap right now.

Nutrien

Nutrien was formed at the beginning of 2018 through the merger of Potash Corp and Agrium. The combination of the two Saskatchewan-based fertilizer companies created a crop nutrients giant that is now the world’s largest supplier of potash and a leader in the production of nitrogen and phosphate.

Countries such as India and China buy potash on annual wholesale contracts. Last year, the average price rose after a multi-year slump, and the new agreements should be at even higher prices.

In addition, Nutrien has a global retail business that provided farmers with seed and crop protection products. The division is growing through acquisitions, and Nutrien is positioned well to dominate the segment amid ongoing consolidation in the industry.

Nutrien is also beefing up its digital solutions offerings that help farmers manage all aspects of their businesses.

The company recently announced it will shut down potash production for about eight weeks in Q4 to adjust to a temporary slowdown in potash sales. The company says the demand outlook for both 2020 and the longer term remains bullish. The current weakness could be due to delayed deliveries to China amid ongoing trade and political disputes.

Nutrien raised its dividend from US$0.40 to US$0.45 per share in the past year. The distribution provides a yield of 3.4%.

At the time of writing, the stock trades for $68.50 per share compared to the 2018 high around $76. Further weakness could occur in the near term if the potash shutdown lasts the full eight weeks, but any additional pullback should be viewed as an opportunity to add to the position.

Population growth in the coming decades should drive higher crop-nutrient demand, as farmers push to get better yield out of their land.

Nutrien has potential to be a free cash flow machine on improved commodity prices, and the stock could take a run at $100 in the next couple of years if prices continue to recover.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) isn't as cheap as it was a few weeks ago but still appears oversold.

The bank's stock is back up to $111 per share from the August low near $98. Bargain hunters finally figured out that the Canadian housing market isn't likely to crash as expected. In fact, the plunge in bond yields in recent months is driving down rates on fixed-rate mortgages. This is bringing new buyers into the market and giving existing mortgage holders an opportunity to renew at favourable rates.

The end result is reduced default risk and new demand for big loans, which is part of the reason Canadian bank stocks have picked up a tailwind.

CIBC's US$5 billion purchase of Chicago-based PrivateBancorp is paying off and the diversification in the revenue stream helps reduce exposure to shocks in the Canadian economy.

CIBC reported solid fiscal Q3 2019 results after a string of weaker quarters, and the improvements should continue of the next year. The board just raised the dividend, so management appears comfortable with the revenue and earnings outlook.

The stock still looks cheap at 9.8 times trailing earnings and offers an attractive 5.2% dividend yield. It wouldn't be a surprise to see the share price get back above $120 in the coming months.

The bottom line

Nutrien and CIBC appear attractively priced right now and should be strong long-term performers for a self-directed retirement portfolio.

If you only buy one, I would probably go with Nutrien as the first choice today.

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