RRSP Investors: 2 Cheap Dividend Stocks to Build Retirement Wealth

Description

Canadian savers are using their RRSPs to set aside funds to help cover living expenses in their retirement years.

The rally in equity markets this year has wiped out many of the deals that were previously available, but there are still some top-quality stocks in the TSX Index that offer growing dividends and appear oversold.

Let's take a look at **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **CIBC** (TSX:CM)(NYSE:CM) to see why they might be interesting picks for a self-directed RRSP portfolio.

Canadian Natural Resources Limited

CNRL is one of Canada's largest energy companies with resources and production operations that span the full spectrum of the hydrocarbon market. The company is a major producer of natural gas in Western Canada; it also has oil sands, conventional oil, and offshore oil sites.

The diverse product line gives the company flexibility to move capital to high return situations that arrive in the market. As an example, Alberta natural gas prices surged from $0.50 in the middle of September to $3 in late October.

CNRL has a strong balance sheet and uses its financial clout to add strategic assets when opportunities arise. We saw this with the $3.8 billion purchase of Devon Energy's Canadian operations earlier this year.

CNRL just reported solid Q3 2019 results with record quarterly funds from operations of $2.9 billion and operating costs that came in below guidance. Free cash flow in the quarter was $1.9 billion.

The board raised the dividend by 12% in 2019 and a double-digit increase could be on the way in 2020.

The stock is up from $30 in August to above $36 per share, but still sits well below the $48 mark it hit in the summer of 2018.

Investors who buy today can pick up a solid 4% dividend yield with decent upside potential on a rebound in oil prices.

CIBC

CIBC trades at less than 10 times trailing earnings, compared to 13 times earnings for **Royal Bank**. A difference is expected due to CIBC's much smaller size and its higher relative exposure to the Canadian economy and housing market, but the discount appears overdone.

Why?

Falling bond yields through 2019 have result in lower fixed-rate mortgages. This is enabling existing homeowners to renew at favourable rates while giving new buyers a chance to get into the market. As a result, the hard landing the market feared has been avoided and CIBC should see the benefits come through in the coming quarters.

Management has also taken steps to diversify the revenue stream. The bank spent more than US$5 billion on acquisitions south of the border with a focus on private and commercial banking in the U.S. The new businesses provide a revenue hedge against a downturn in Canada and give CIBC a platform to expand its reach in the sector through additional deals.

The board recently raised the dividend and steady increases should be on the way in line with earnings growth. CIBC's current payout provides a yield of 5%.

The bottom line

Generating RRSP wealth over the long haul can come from a combination of dividends and stock price appreciation. Ideally, we want to buy top companies when they are out of favour.

If you have some cash sitting on the sidelines, CNRL and CIBC should be solid picks today for a buy-and-hold portfolio.

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