RRSP Investors: 2 Unlikely Dividend Stocks to Start a Retirement Portfolio

Description

Dividend stocks are popular picks for buy-and-hold investors who want to create a retirement fund.

The strategy makes sense, especially when the distributions are used to buy new shares, as the compounding process can turn reasonably modest initial investments into a large nest egg.

In the TSX Index, the financials and some utility stocks are often cited as go-to picks for a dividend portfolio, and that should continue to be the case. However, there are other top-quality stocks to consider.

Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see if one deserves to be on your buy list.

Suncor

Suncor pays a quarterly dividend of $0.42 per share. The board raised the payout by $0.06, or roughly 17% earlier this year, and investors should see ongoing hikes continue. In fact, Suncor is rather unique in the troubled oil patch in that the board has raised the dividend for 17 straight years.

The Canadian oil sector certainly has challenges, and solving the pipeline issues will take time, but Suncor still manages to get international pricing for the majority of its production due to favourable access on existing lines.

Suncor's downstream operations, which include four refineries and about 1,500 Petro-Canada retail locations, provide a nice balance to the revenue stream and can benefit when oil prices fall due to the reduced cost of the crude oil used to produce the finished products.

The company reported solid Q3 2019 results, despite weak oil prices. Production increased compared to the previous year, supported by a ramp up of output at the new Fort Hills and Hebron sites.

Suncor announced plans to increase the current share buybacks from $2 billion to $2.5 billion. This is a sign that the board is comfortable with the cash flow outlook and believes the stock is undervalued.

Suncor trades at $42 per share compared to the 2018 high of $55, so there is decent upside potential on an oil rebound. Investors who buy the stock today can pick up a 4% yield.

CN

Canadian National Railway might not appear to be an attractive dividend pick based on its yield of 1.8%, but investors should take a closer look.

The company is a profit machine and does a good job of spreading out the gains across capital investments, dividends, and share buybacks. In fact, CN is one of the best dividend stocks in the TSX Index with a compound annual dividend-growth rate of about 16% over the past 20 years.

The company is currently dealing with a strike by more than 3,000 workers, but that will get resolved. Any dip in the stock should be viewed as a buying opportunity.

CN is one of a handful of companies that play an integral role in the functioning of the Canadian and U.S. economies. The unique track network that connects three coasts provides a wide competitive moat.

The bottom line

Suncor and CN should be solid long-term picks for a dividend-focused RRSP portfolio. If you only buy one, I would probably make Suncor the first choice today. The energy giant appears oversold, and any improvement in the price of oil could move the stock significantly higher.

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