RRSP Investors: 2 Oversold Dividend Stocks to Consider for 2020

Description

Canadian savers are constantly searching for ways to boost the size of their retirement fund.

The Registered Retirement Savings Plan (RRSP) has been around for decades and serves as a useful tool to help people set aside extra cash in addition to the CPP and OAS payments in retirement.

Canadians can put 18% of their previous year's income into the RRSP, up to a maximum. The cap is $26,500 in 2019 and will be $27,230 in 2020, plus any unused room that has been carried forward.

Contributions to a work plan count toward the RRSP limit, but most people still have some extra space.

GICs, bonds, and stocks can all be held inside the RRSP. A popular strategy involves owning top-quality dividend stocks and using the distributions to buy more shares. The dividend reinvestment can usually be set up to occur automatically through a discount brokerage account.

Over time, a snowball effect kicks in and the initial investment can grow to be a significant sum, especially when the stock price appreciates along with the dividend payments.

Let's take a look at two dividend stocks that appear cheap right now and might be interesting RRSP picks for 2020.

Suncor

Suncor (TSX:SU)(NYSE:SU) isn't often touted as a top dividend pick, but the stock probably deserves more respect.

The board raised the quarterly payout by nearly 17% in 2019, from $0.36 to $0.42 per share. The hike in 2018 was 12.5%, and investors have received an increase in each of the past 17 years.

Low oil prices put a pinch on the margins the company can generate in the production operations, which include oilsands and offshore oil facilities. However, Suncor's integrated business structure includes refining and retail businesses that help offset some of the volatility in the oil market.

In fact, lower input costs during times of weak oil prices can benefit the refining division. The company's four sites turn crude oil into end products such as gasoline, diesel fuel, jet fuel, and asphalt.

Suncor's stock price is at $42 compared to the 2018 high around $55 per share. The company continues to generate strong cash flow, and the board is apparently optimistic about the revenue outlook. Suncor just raised its share-buyback program from $2 billion to $2.5 billion.

Investors who buy today can pick up a 4% yield.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) currently offers dividend investors a 5.3% yield. The stock is down in recent trading after the fiscal Q4 numbers came in weaker than analysts expected.

The Canadian banks are facing some headwinds with the prospective of lower interest rates cutting into net interest margins. Consumers and businesses might be finding it harder to pay the bills as well. The trend in the latest round of earnings results showed increased provisions for credit losses.

A crash in the Canadian economy would be negative for CIBC, as it relies heavily on the domestic market for its revenue and earnings.

That said, the stock might be getting oversold, despite the near-term challenges for the industry.

CIBC is building up its U.S. operations through acquisitions. The American business is performing well and accounts for 17% of adjusted earnings. Additional deals could be on the way to further diversify the revenue stream and that should make the market more comfortable with the stock.

CIBC raises it dividend regularly and is a very profitable company. At just 9.6 times 12-month trailing earnings, the stock is trading at a large discount to some of its peers.

The bottom line

Suncor and CIBC are top-quality companies with attractive dividends that should continue to grow. The stocks appear attractively priced right now and deserve to be on your radar for a buy-and-hold RRSP portfolio.

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2. Dividend Stocks
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