Beat the RRSP Deadline: It Is Time to Buy Defensive Stocks

Description

Although 2019 is firmly in the rear-view mirror, investors aren't quite done with 2019 just yet. This is because there is still an opportunity to take advantage of the tax benefits of contributing to your Registered Retirement Savings Plan (RRSP). Canadians can apply their contributions from the first 60 days of 2020 to their 2019 taxes.

By contributing to an RRSP, you reduce your taxable income by the amount of the RRSP deposit. This is one of the most attractive aspects of this investment account. By doing so, you are effectively lowering the amount of tax owing, or potentially setting yourself up to receive a tax return. The RRSP contribution deadline is March 2, 2020.

Given the most recent geopolitical headlines involving the U.S. and Iran, it may also be time to shift into a defensive position. In times of uncertainty, defensive stocks tend to outperform the markets. Taking this into account, here are a couple of defensive stocks that you should consider adding to your RRSP portfolio.

A top dividend-growth stock

Defensive stocks are usually accompanied by a stable and growing dividend. Keeping this in mind, there is perhaps no better dividend-growth stock in the country than **Canadian Utilities** (TSX:CU). At 48 years and counting, Canadian Utilities owns Canada's longest dividend-growth streak.

January is an important month for the company, as that's when it typically announces the annual dividend increase. Dividend raise announcements are often catalysts for gains, as it reinforces management's commitment to the dividend and is a sign of a healthy business.

Utilities are also some of the best defensive stocks to own. Since they operate in highly regulated environments, they generate consistent and stable cash flows. Regardless of economic condition, or what is happening on a global scale, their financial situation is minimally impacted.

Likewise, one of the headwinds that has negatively impacted the sector — rising interest rates —

appears to have subsided. In fact, rates south of the border were cut in 2019 and helped lead to an unexpected year of outperformance for utility companies. Given how we have started 2020, they may be poised to outperform yet again.

A top midstream company

Another key defensive area? Midstream, more commonly referred to as pipelines. These companies aren't as susceptible to big commodity price fluctuations, as they are in the business of transporting goods, not producing. One of the best in the space is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA).

Pembina has shifted its business strategy to one that is focused on fee-based services. This is important as it leads to more reliable and sustainable cash flows. In 2019, 64% of adjusted EBITDA will come from take-or-pay/cost-of service contracts, up from 44% in 2015. Overall, fee-based contracts contribute approximately 85% of the company's adjusted EBITDA.

This has allowed the company to grow its dividend by mid- to high single digits. As of writing, it is yielding an attractive 5.03%, and it recently announced that the dividend will rise to $0.21 per share beginning this February.

On top of a strong organic growth profile, the company is not afraid to make strategic acquisitions. It recently closed on the Kinder Morgan Canada and Cochin U.S. deal, which is estimated to have an incremental run-rate adjusted EBITDA of $100 million over the next five years. It is also expected to be immediately accretive to cash flow, which was the catalyst for the aforementioned February dividend raise.

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Date
2025/08/25
Date Created
2020/01/07
Author
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