RRSP Investors: A Top Dividend Stock to Start Your 2020 Retirement Portfolio

Description

Canadian savers are wrapping up the holiday expenses and deciding how much cash they have available to put in their RRSP before the deadline arrives for the 2019 tax year.

It is an annual tradition in this country that dates back to when the RRSP first emerged in 1957 to help Canadians who might not have employment pension plans or want to boost their retirement savings.

The RRSP is a great tool for building a self-directed pension fund. The contributions can be used to reduce taxable income, helping reduce the net impact on your cash holdings. In addition, the investments can grow tax-free while they remain inside the RRSP and are only taxed when withdrawn.

Ideally, we are in a higher tax bracket when we make the contributions than when we pull the money out to cover retirement expenses.

Removing the funds early triggers withholding taxes, so there is an incentive to leave the RRSP contributions to grow. There is a government provision, however, that allows Canadians to borrow from their RRSP to make a downpayment on a house purchase.

Which stocks should you buy?

The best companies to own tend to be industry leaders with reliable revenue and earnings growth that supports a steady stream of rising dividends.

Let's take a look at one top Canadian dividend stock that might be interesting RRSP picks right now.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP), formally called TransCanada, is a North American energy infrastructure giant sporting a market capitalization of $64 billion.

With more than $100 billion in assets located in Canada, the United States, and Mexico, the company is a key player in the transportation of oil and natural gas. TC Energy also has strategic gas storage facilities and power generation sites.

The company has the size and the financial clout to make strategic acquisitions, as we saw with the US$13 purchase of U.S.-based Columbia Pipeline Group in 2016. TC Energy also grows through organic projects.

The energy infrastructure sector faces ongoing challenges to new major developments, but TC Energy has a strong portfolio of projects underway. The company currently has $30 billion in secured capital developments and is working through the process of funding the program through internal means.

TC Energy recently announced a deal to sell a 65% interest in its Coastal GasLink project. It will maintain a 35% interest and will be contracted to build and operate the pipeline.

Bringing in partners on major projects is a good way of spreading out risk while still driving long-term growth. It also reduces the need to add debt or issue new stock to cover capital requirements. This is positive for investors who are searching for stability in their investments.

TC Energy plans to raise the dividend by 8-10% per year through 2021, with annual hikes beyond that timeframe of 5-7%. The current payout provides a 4.3% yield.

The stock enjoyed a nice rally in 2019, supported by lower interest rates in the United States and falling bond yields. This trend is expected to continue in the medium term, or at least remain at current levels.

A $10,000 investment in TC energy 20 years ago would be worth more than $125,000 today with the dividends reinvested.

The bottom line

TC Energy should be a solid buy-and-hold pick to start a dividend-focused RRSP portfolio.

Investors can build a substantial retirement fund by owning top dividend stocks and using the distribution to buy new shares.

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