RRSP Deadline: A Contrarian Dividend Stock for a Retirement Portfolio in 2020

Description

The deadline for making RRSP contributions to lower taxable income for the 2019 tax year is March 2, 2020.

Canadian savers are checking their RRSP accounts and determining how much cash they have available to set aside for their golden years. Part of the process involves finding reliable investments for the funds they plan to contribute.

Holding GICs is a safe option, but GIC rates from the big banks have dropped significantly since late 2018 and now offer returns of roughly 2% on your money. As a result, people are turning to quality dividend stocks to get better yields and ideally generate capital gains over the coming years.

Let's take a look at one dividend stock that might prove an interesting contrarian RRSP pick for self-directed portfolio in 2020.

Suncor

Oil prices are down over the past month as global traders worry that the coronavirus outbreak could put a big dent in Chinese demand.

The price of WTI oil was as high as US$63 in early January amid rising tensions between the United States and Iran. Since then, the focus has turned to a potential economic slowdown and WTI oil is now trending around US$50 per barrel.

Where we go from here is anyone's guess, but contrarian investors are getting an opportunity to pick up some top energy stocks at attractive prices.

Suncor (TSX:SU)(NYSE:SU) trades at $39 per share compared to $45 in the middle of January. Given the strong 2019 results and outlook for the coming year, however, the drop might be overdone.

Suncor reported record funds from operations of $10.8 billion for 2019. The board just raised the dividend by 11% for 2020, so the management team is obviously comfortable with the cash flow outlook despite the uncertainty in the energy market. The board has also allocated up to $2 billion to repurchase shares over the next 12 months.

Investors who buy the stock today can pick up a 4.7% dividend yield and simply wait for the next rebound in the market.

Low oil prices will impact margins in the upstream segment, but Suncor is somewhat unique in the Canadian oil patch due to its integrated business structure.

Suncor has four refineries and about 1,500 Petro-Canada retail locations that balance out the revenue stream. In fact, the downstream assets, as they are known, can benefit from lower input costs when oil prices drop.

Suncor has a strong balance sheet and is large enough that it can take advantage of weak market conditions to add new assets at attractive prices. Struggling peers often put assets up for sale to reduce debt, providing Suncor with a cheap way to grow reserves.

Risks?

Pipeline access remains an issue for the Canadian oil producers, but key projects are slowly moving forward. Keystone XL and Trans Mountain would give Suncor and its peers additional capacity to move production to the United States and international markets.

In addition, oil producers are not popular and the long-term trend toward renewable energy is important to consider when evaluating these stocks. However, global oil demand is still expected to rise through 2050.

The bottom line

Suncor appears cheap today and offers investors an attractive dividend that should continue to grow.

If you are searching for a contrarian pick for your RRSP portfolio this stock deserves to be on your radar.

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