



Why You May Not Want to Contribute to Your RRSP in 2020

Description

Contributing to your RRSP to get a tax credit sounds like an appealing proposition; however, it's not always worth it.

The thing that can sometimes be misunderstood is that contributing to your RRSP doesn't get you out of paying taxes; it only defers the taxes, ideally to a time when your income level will be lower, and therefore your marginal tax rate will be lower.

It only makes sense to contribute to the RRSP if you earn a high enough income now and expect to have a lower income level in the future.

In addition, if you are putting the money in and leaving it only as cash, it also doesn't make sense from an economic perspective.

The point of the RRSP is to invest and grow your money, so leaving it only as cash not only will lose value with inflation but may as well just go towards paying your taxes now.

You also may not want to contribute to your RRSP if you think you may need that money soon, before retirement.

Instead, you could consider a [TFSA](#), which allows for unlimited withdrawals of money without any tax ever.

Regardless of which investing account you choose, you'll want to invest in companies with great business models, such as a stock like **AltaGas** ([TSX:ALA](#)).

AltaGas is an energy infrastructure company serving the Western Canadian energy industry.

It operates through three main segments: its midstream segment, power segment, and utilities segment.

The company has turned its business around recently, selling off non-core assets to pay down debt

and focusing on making its core assets more efficient and capable of growing their profitability.

So far, so good for AltaGas, and with its impressive growth in earnings before interest, taxes, depreciation, and amortization (EBITDA) coupled with its large debt reductions, the company is now in much better shape.

The company has improved its core assets considerably, and they are now earning more profit for AltaGas that is more than making up for the non-core assets it's been selling.

In addition to the improvements it's made with its current portfolio of assets, it also has development projects or new assets like the Ridley Island Propane Export Terminal (RIPET), which just came online and will continue to bring new growth for years to come.

The RIPET will virtually be a guaranteed success, as the entire Western Canadian energy industry has been calling on more ways to get their products to market, so any way to do that is good for [AltaGas](#) and good for the Canadian economy.

The company expects to see a 100% increase in export volumes from RIPET in 2020, with an average of 50,000 barrels per day by year end 2020.

The stock has been rallying the last three months, up 13% as investors realize the company's high-quality potential.

Its dividend yields roughly 4.25% and pays out just 50% of its operating income.

Going forward, AltaGas expects to do earnings per share of \$1.20-\$1.30 in 2020, according to its guidance, with EBITDA coming in at roughly \$1.3 billion. It expects improvements to both its EBITDA and net income due to stronger results from its businesses as well as lower interest expenses due to the debt that it's repaid.

At a current price of roughly \$22.50, it's trading at a forward price-to-earnings ratio of just 18 times from the midpoint of its 2020 guidance.

AltaGas is the type of company that's a buy-and-hold investment. Over the long term, its business will grow and expand, so investors can buy today knowing they are gaining ownership of a high-quality company that will pay a growing dividend and create new major value throughout the years.

It's an ideal stock that almost any investor should own, so whether you choose to contribute to an RRSP or not this year, if you're looking to add another high-quality businesses to your portfolio, consider AltaGas.

CATEGORY

1. Energy Stocks
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1. TSX:ALA (AltaGas Ltd.)

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Date

2025/08/28

Date Created

2020/02/23

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