RRSP Investors: 2 Undervalued Dividend Aristocrats to Buy for 2021

Description

Even though the stock market is trading close to record highs, investors can find hidden gems that are trading at attractive valuations. There a few fundamentally strong companies in sectors that have been hit hard by the pandemic, which investors can buy right now for market-beating gains.

We'll take a look at two Canadian Dividend Aristocrats that should be on the radar of value and income investors. You can hold them in your RRSP (Registered Retirement Savings Account) and benefit from a steady stream of income in 2021 and beyond.

RRSP contributions are tax deductible

Canadians generally use their RRSP to build a pension fund that will help them complement other pension programs such as the CPP and OAS.

The contributions towards your RRSP are tax deductible, and long-term investors can benefit from the power of compounding, especially if you account for dividend reinvestments. You need to pay taxes to the CRA only when you withdraw funds from your RRSP.

It makes perfect sense to buy and hold stocks for several years in your RRSP, as the compounding process can turn small investments into large portfolios over time. However, you need to identify companies that have robust financials and a sound business model. The best-performing stocks are generally industry leaders with enviable records of dividend growth.

Let's take a look at two dividend stocks on the TSX that are on sale today.

Enbridge is a Canadian giant

When it comes to undervalued dividend stocks, it is impossible to ignore **Enbridge** (TSX:ENB)(NYSE:ENB). Enbridge is one of the largest companies in Canada with an enterprise value of $167 billion.

ENB stock sports an attractive forward yield of 7.6%, which means a $10,000 investment in the company will help you derive $760 in annual dividends. Enbridge's steady cash flow generation has helped it increase dividends at an annual rate of 11% between 1995 and 2020.

The energy heavyweight is almost immune to fluctuations in commodity prices as over 90% of its EBITDA is backed by long-term contracts. This recession-proof business and Enbridge's focus on expanding its portfolio of renewable assets will help the company increase cash flows and support dividend growth in the upcoming decade.

Despite a volatile ride in 2020, Enbridge is on track to deliver full-year results near the midpoint of its initial cash flow guidance range of between $4.50 to $4.77 per share. Given it pays a dividend of $3.34 per share, Enbridge's payout ratio is sustainable, and investors can brace for increases in 2021 as well.

Canadian Utilities

Canadian Utilities (TSX:CU) is another Dividend Aristocrat and has in fact raised its dividends for 48 consecutive years, showcasing the company's ability to easily weather multiple economic downturns.

Canadian Utilities's high-quality earnings base makes it the ultimate dividend-growth stock for Canadian investors, especially considering a forward yield of 5.4%. The company generates most of its earnings from its regulated business.

Further, Canadian Utilities continues to invest and expand its asset portfolio which should provide it with a strong base for sustainable dividend growth. Its focus on cost efficiencies and rate base growth is expected to drive earning in 2021 and beyond.

The verdict

A $10,000 investment in Enbridge stock back in 1995 would have ballooned to $106,000 today. After accounting for dividend reinvestments, this figure stands at $198,533. Comparatively, a similar investment in the S&P 500 would be worth $105,262 after accounting for dividend reinvestments.

We can see how a small investment in a high-quality, dividend-paying company can help you build massive wealth over time.

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1. Dividend Stocks
2. Investing

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