2 Top TSX Stocks to Start a Self-Directed RRSP

Description

Canadian savers are using their RRSP contribution space to build self-directed stock portfolios for retirement. One popular strategy involves buying top dividend stocks and using the distributions to acquire new shares.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) generated a 14% increase in adjusted profits in 2021 compared to 2020 and is on track to deliver another solid year in 2022. Management expects EBITDA to grow from $14 billion last year to at least $15 billion in 2022. Distributable cash flow is forecast to expand by 5-7% per year through 2024.

Enbridge raised its dividend by 3% for 2022. This was the 27th consecutive annual increase to the payout. That's important for RRSP investors who want to harness the power of compounding to build wealth through the reinvestment of dividends in new shares.

Enbridge plans to invest at least $3 billion per year on core utility projects and an additional $2 billion annually on other alternatives, including share buybacks. The company put a new share-buyback program in place for 2022 that will allow the company to spend up to $1.5 billion on share repurchases.

The rebound in the oil and gas sector bodes well for Enbridge's operations in the coming years. Enbridge transports 30% of the oil produced in Canada and the United States and moves 20% of the natural gas used by American homes and businesses.

At the time of writing, the stock provides a 5.9% dividend yield. A $10,000 RRSP investment in Enbridge 25 years ago would be worth about $300,000 today with the dividends reinvested.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is a profit machine. The bank generated more than $16 billion in profits in fiscal 2021 and a return on equity (ROE) of 18.6%.

Royal Bank is also off to a strong start in fiscal 2022. The Q1 net income came in at $4.1 billion, up 6% from the same period last year. ROE remains high at 17.3%, and Royal Bank finished the first quarter with a CET1 ratio of 13.5%. That’s a measure of the company’s capital position. The banks are required to have a CET1 ratio of at least 9%, so Royal Bank is sitting on significant excess funds it can use for acquisitions, share buybacks, and dividend increases.

Royal Bank recently announced a $2.6 billion deal to boost its wealth management business in the United Kingdom. Additional strategic purchases could be on the way.

Royal Bank raised the dividend by 11% late last year. Investors should see another generous increase for fiscal 2023.

Royal Bank stock is down about 8% from the 2022 high, so investors have a chance to buy Canada’s largest bank by market capitalization on a nice dip. The current dividend provides a 3.5% yield.

Long-term RRSP investors have done well with RY stock. A $10,000 investment in the bank’s shares 25 years ago would be worth about $245,000 today with the dividends reinvested.

The bottom line on top RRSP stocks

Enbridge and Royal Bank are leaders in their industries and should continue to deliver solid total returns to RRSP investors for decades. If you are searching for anchor picks to put in a self-directed RRSP, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
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2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
4. TSX:RY (Royal Bank of Canada)

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