Better RRSP Buy: Bank of Nova Scotia Stock or Suncor?

Description

Canadian investors are searching for top TSX dividend stocks to add to their retirement portfolios this year. Buying undervalued dividend stocks can lead to solid total returns. **Bank of Nova Scotia** (TSX:BNS) and **Suncor** (TSX:SU) currently trade at discounted prices and might be worth considering while they are out of favour.

Bank of Nova Scotia

Bank stocks could be set for a rebound in 2023 after a rough ride through most of last year. Bank of Nova Scotia in particular appears ripe for a bounce. At the time of writing, the stock is down 24% over the past 12 months. This is due to concerns that a severe economic downturn could arrive in 2023 or 2024 and hit both the Canadian and international operations.

Bank of Nova Scotia recently said it considers roughly 20,000 of its mortgage clients to be vulnerable to default amid a sharp rise in interest rates. This, according to the bank, only represents about 2.5% of the mortgage portfolio, so the weakness in the stock might be overdone.

On the international side, Bank of Nova Scotia has large operations in Mexico, Peru, Chile, and Colombia. These countries rely on high oil and copper prices for a good chunk of their revenues. If commodity prices tank during a global recession, Bank of Nova Scotia could see profits deteriorate in these markets, as they did during the pandemic.

That being said, economist broadly expect Canada and the world economy to go through a short and mild recession and Bank of Nova Scotia's international group rebounded strongly in fiscal 2022, supported by strong demand for copper and oil. Commodities prices could hold up well, even if an economic downturn occurs.

Bank of Nova Scotia raised its dividend in fiscal 2022 and generated full-year adjusted earnings that beat the 2021 results. The stock trades at close to $69 per share right now compared to $95 at the peak last year. Investors who buy BNS stock at the current level can get a 6% dividend yield.

Suncor

Suncor took a beating during the pandemic, and investors still haven't piled back into the stock the way they returned to its peers. One reason is the 55% dividend cut that management put in place in the early months of the pandemic to protect cash flow. Suncor eventually restored the payout to its previous level and bumped it up again last year to a new all-time high.

Contrarian investors with an eye on value and good dividend returns might want to consider buying Suncor today. The company put new leadership in place last year, started selling non-core assets, and concluded that its integrated business structure should serve investors well in the coming years. Suncor is known as an oil sands producer, but it also has refining and retail operations. As fuel demand rises in the next few years, all three of Suncor's divisions should prosper.

Suncor trades for close to $44 per share at the time of writing. This is about where it sat before the pandemic. Its oil sands peers have enjoyed gains of up to 100% from pre-pandemic levels, so Suncor might be ripe for a rally in 2023 if oil prices start to drift back toward US$100 per barrel.

Investors who buy now can get a 4.7% dividend yield.

Is one a better bet?

Bank of Nova Scotia and Suncor pay attractive dividends that should continue to grow. The stocks both appear undervalued and deserve to be on your Registered Retirement Savings Plan radar. If you only buy one, I would probable make BNS stock the first pick today.

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