



Better RRSP Buy: Suncor Stock or TD Bank?

Description

Canadian investors are searching for top [TSX](#) stocks to add to their Registered Retirement Savings Plans (RRSP) in the hopes of generating solid long-term total returns. **Suncor** ([TSX:SU](#)) and **TD Bank** ([TSX:TD](#)) are down from their 12-month highs, and contrarian investors are wondering if one might be [undervalued](#) and set to deliver decent upside through the end of the year.

Suncor

Suncor trades near \$44.50 per share at the time of writing. That's pretty close to the price the stock fetched in early 2020 right before the pandemic meltdown in the energy sector and the subsequent recovery through 2021 and 2022.

Suncor's large oil sands peers, however, currently trade as much as 100% above their pre-pandemic prices.

What's the story?

Suncor slashed the dividend by 55% in the early days of the pandemic. Most of the other Canadian energy giants maintained or raised their payouts in 2020. Suncor eventually bumped the payout back up again in 2021 and through 2022, and the current quarterly distribution of \$0.52 per share is a record high for the business, but investors still aren't impressed.

Suncor also struggled with safety issues at its sites. Turbulence in the executive suite emerged last year after an activist shareholder put pressure on the board to shake up management. The chief executive officer left the firm last summer, and the board is still looking for a permanent replacement.

On the positive side, Suncor used the cash windfall over the past two years to reduce debt and buy back stock while the share price languished. The company intends to repurchase up to 10% of the outstanding common stock over the next 12 months under the renewed share-buyback plan and will continue to reduce net debt. These moves will benefit shareholders over the long run.

Oil bulls expect the price of West Texas Intermediate oil to move higher through the year with some pundits calling for a return to US\$100 per barrel. If that turns out to be the case, Suncor stock looks cheap today. At the time of writing, investors can get a 4.7% dividend yield.

TD

Investors who bought TD stock at the 2022 low near \$78 in July are already sitting on some nice gains. TD trades near \$93 right now compared to \$109 at the peak last year.

The market is trying to figure out if the steep rise in interest rates designed to bring down inflation will eventually trigger a sharp economic downturn, heavy job losses, and a spike in mortgage defaults. TD and its Canadian peers hold large Canadian residential mortgage portfolios. Home prices are already down, but a plunge caused by a wave of listings could result in the banks being stuck with properties that are worth less than the amount owed on the loans.

For the moment, economists predict a mild and short recession. The jobs market remains robust and the Canadian banks say that commercial and retail customers are sitting on large savings. This should help mitigate the damage from the rate hikes.

TD built up a war chest of excess cash during the pandemic and is using the funds to make two strategic acquisitions in the United States. The US\$13.4 billion purchase of **First Horizon** will see TD become a top-six bank in the American market. TD is also spending US\$1.3 billion to buy **Cowen**, an investment bank.

TD stock isn't as cheap as it was last summer but still looks attractive at the current multiple of 9.8 times trailing 12-month earnings. Management expects adjusted earnings to grow by 7-10% in fiscal 2023. At the time of writing, TD's dividend yield is 4.1%.

Is one a better RRSP bet?

Suncor appears more oversold right now if you are of the opinion that oil prices are headed higher and will stay elevated for the next few years. TD is likely the safer pick, assuming the anticipated recession proves to be mild. I would probably split a new RRSP investment between the two stocks today.

CATEGORY

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2. TSX:TD (The Toronto-Dominion Bank)

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