



## 2 Oversold Dividend Favourites for Your TFSA

### Description

The pullback in the Canadian market is giving investors a great opportunity to buy quality dividend stocks for their tax-free savings accounts (TFSA).

The TFSA is a great vehicle for building retirement wealth because it allows investors to reinvest dividends in new shares without paying any tax on the distributions. When it comes time to tap the funds, the capital gains earned on the stock are also tax free. This is a huge advantage for retirement planning.

Here are the reasons why I think **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **RioCan Real Estate Investment Trust** ([TSX:REI.UN](#)) are solid TFSA picks right now.

### Canadian National Railway

Canadian National Railway has a unique competitive advantage because it is the only North American rail company that offers its customers access to three coasts.

The recent downturn in the oil market has some pundits concerned that Canadian National Railway's earnings will take a big hit because crude-by-rail shipments are going to suffer.

The boom in energy-related rail transport is slowing down, but it isn't going away. Pipeline bottlenecks look set to remain for several years, and western Canadian energy companies are still producing a lot of oil.

The drop in crude prices actually helps Canadian National Railway's other business segments. For example, the falling Canadian dollar has been a boon for forestry exports to the U.S., and every dollar Canadian National Railway earns from its U.S.-based operation now converts to about \$1.32 Canadian.

The Q2 2015 earnings statement suggests things are just fine. The company reported net income of \$1.10 per share, up from \$1.03 in the same period last year.

Canadian National Railway increased its dividend by 25% earlier this year and management says it

wants to boost the payout ratio to 35%. That is great news for investors. The stock has pulled back 15% in the past six months and now trades at a reasonable 15.5 times forward earnings.

Canadian National Railway is one of those great companies you can simply buy and forget about for decades.

## RioCan

RioCan owns and operates 293 retail properties in Canada and another 47 in the United States. These shopping centres are located in prime locations and house many of the industry's top retail names.

RioCan's stock has come under pressure this year as investors fret about a weakening Canadian economy and the impending U.S. interest rate hike. The stunning exit of **Target** from the Canadian market has also had an impact. As a result, the stock is now down to the point where its distribution yields an attractive 5.9%.

Here's why the sell-off looks overdone.

RioCan reported solid Q2 2015 results with a 7% year-over-year increase in funds from operations. Tenants don't seem overly concerned about the market because they resigned for 1.1 million square feet of retail space in the second quarter at an average rent increase of 9.8%.

Management is watching the overall market very carefully and is considering a sale of the U.S. properties. The funds could be invested in higher-return projects or even returned to investors as a special distribution.

RioCan pays a distribution of \$1.41 per share. The payout looks very safe and the stock now trades at just one times book value, which is quite low compared with the five-year average of 1.6 times.

Worries about rising rates are probably overblown. A slowdown in the Canadian economy will impact retail earnings, but the effects shouldn't hit RioCan unless there is a mass exodus from its properties, and that is unlikely to happen.

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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aswalker

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