



RRSP Investors: 2 Oversold Dividend Aristocrats to Buy Now

Description

The stock market remains near all-time highs but some of Canada's Dividend Aristocrats currently trade at very attractive prices.

Top stocks for RRSP investors

People use their [RRSP](#) to build a personal pension fund that will eventually complement CPP, OAS, and employment pension income. RRSP contributions reduce taxable income, and the invested funds grow tax-free inside the RRSP. Tax is only paid at the time of withdrawal.

Given the nature of the RRSP, most investors take a buy-and-hold approach. It's not uncommon to own a stock for decades. In fact, this is a proven strategy for building RRSP wealth, especially when dividends are used to buy additional shares. The compounding process can turn small initial investments into large portfolios over time.

The best stocks to own tend to be industry leaders with long track records of dividend growth. Once in a while, these stocks go on sale. Let's take a look at two top dividend stocks that look [cheap](#) today.

Why Canadian National Railway remains a Dividend Aristocrat

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) just raised its dividend by 7% for 2021. That's less than the compound average dividend-growth rate of 16% over the past 24 years, but it is still a hefty bump in the current market conditions.

CN just released solid [Q4 2020 results](#). The railway reported a 2% revenue increase over the same period last year. Management expects free cash flow to be \$3-3.3 billion in 2021, roughly in line with 2020.

The board announced plans to buy back up to 14 million shares over a 12-month period beginning February 1, 2021.

CN trades near \$131 per share at the time of writing compared to \$147 a few weeks ago. Dips greater than 10% in CN's stock price typically turn out to be good buying opportunities for RRSP investors.

A \$10,000 investment in CN stock just 20 years ago would be worth \$220,000 right now with the dividends reinvested.

Why Enbridge stock is a good Dividend Aristocrat buy today

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) fell out of favour with the market last year. Opposition to pipeline developments put future growth potential in question. At the same time, a crash in fuel demand hit throughput on Enbridge's extensive oil pipeline network. The company moves nearly 25% of all oil produced in Canada and the United States. When demand for gasoline, diesel fuel, and jet fuel plunged, refineries reduced orders for crude oil feedstock.

The sell-off in the stock went too far, and Enbridge still looks oversold, even after the nice bounce off the 2020 lows.

Why?

The company's natural gas transmission business transports 20% of the natural gas used in the United States. In Canada, the gas utility operations supply millions of business and residential customers. Enbridge also has vast gas storage assets and renewable energy facilities. The non-oil divisions provide a good revenue hedge against the slowdown in the oil pipeline.

Pipeline opposition remains a concern. Michigan's governor wants to terminate an easement that would force the closure of Enbridge's Line 5 dual pipeline. The easement has been in place since 1953. These pipelines supply essential fuel to Michigan, neighbouring states, Ontario, and Quebec. Enbridge intends to replace the lines with new ones that would run along the same route in a new tunnel.

Despite the challenges on some projects, Enbridge has decent growth prospects. The company is advancing \$16 billion in secured capital developments. Management expects this to drive 5-7% annual growth in distributable cash flow. Dividend increases will likely be in the same range.

The board raised the dividend in 2020, representing the 26th straight annual dividend hike. Investors who buy the stock at the current price near \$44 per share can pick up a 7.5% yield.

The bottom line

CN and Enbridge are leaders in their respective industries. These Dividend Aristocrats appear oversold right now and continue to deliver strong distribution growth.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNR (Canadian National Railway Company)
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