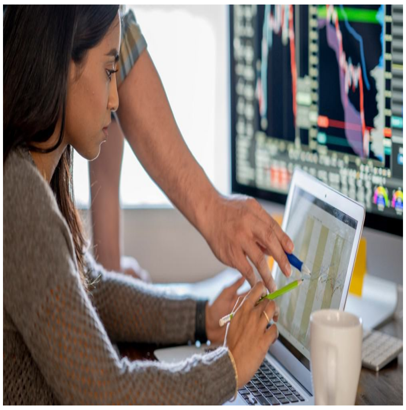

Got $2,000 to Invest? 2 Top Canadian Stocks to Buy on the Next Market Dip

Description

The impressive rally off the 2020 market crash continues to push the stock market to new highs.

At some point, we will get a healthy market correction and that will give investors a great opportunity to add top Canadian stocks to their TFSA or RRSP portfolios.

Why Canadian National Railway is a top stock to buy on a pullback

Canadian National Railway (TSX:CNR)(NYSE:CNI) made headlines this week with its US$33 billion bid to buy **Kansas City Southern**, a U.S.-based railway that has lines connecting to Mexico.

The offer comes a few weeks after **Canadian Pacific Railway** announced it had reached an agreement to buy Kansas City Southern for US$25 billion.

Investors hammered CN stock on the news, sending the shares down as much as 8%. If a bidding war erupts, the market could drive CN's share price even lower in the coming weeks or months.

CN already has a unique network that connects to ports on the Atlantic and Pacific coasts in Canada and the Gulf of Mexico in the United States. Analysts doubt whether CN would get regulatory approval for the deal. CP's odds of buying Kansas City Southern are viewed as better.

History suggests buying CN on any significant drop in the share price is a smart strategy. It was a profitable move during the Great Recession and in 2020 during the market crash.

CN generates significant free cash flow to cover capital expenditures and provide investors with attractive dividend hikes and share buybacks. The board raised the dividend by 7% for 2021. Since its IPO in the mid-1990s, CN's compound annual dividend-growth rate is about 15%.

At the time of writing, the stock appears attractive at $138 per share. That's down from the recent high around $149.

Why Suncor stock looks cheap

Suncor (TSX:SU)(NYSE:SU) rallied from $15 per share last fall to $29 in March. The stock has since pulled back to $25 and more downside could be on the way in the near term.

The third COVID-19 wave is delaying an economic recovery in key oil-consuming markets such as Europe and India. This could put pressure on oil prices in the near term. WTI oil soared from US$36 per barrel in October to as high as US$66 in March. Oil remains above US$60 right now, holding gains that are above levels anticipated coming into the year.

Suncor's production operations should generate decent margins at current oil prices, but the refining and retail divisions are still under pressure from the drop in fuel demand. That will get sorted out once vaccinations become more widespread in Canada and airlines ramp up capacity.

OPEC+ might decide to increase oil supply to the market in the coming months to take advantage of the higher prices. This could put a cap on additional gains in the oil market. Oil bulls, however, say stockpiles are clearing quickly, and the strong economic recovery expected in the back half of 2021 and in 2022 could create a tight oil market. In this case, expectations for oil to rise to US$75 or higher could pan out.

Suncor traded for more than $40 per share when oil was US$60 before the pandemic, so the stock appears undervalued if fuel demand is set to recover to 2019 levels by next year.

The bottom line

CN and Suncor are top Canadian stocks that already appear attractive. The share prices could drop even further in the near term on industry-specific issues or a broader market correction. Investors with some cash on the sidelines might want to take advantage of the next pullback to buy these stocks.

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