RRSP Investors: 2 Top Canadian Stocks to Buy on a Dip

Description

Investors with some cash to put to work inside their RRSP are finally getting a chance to buy some top Canadian stocks at attractive or even undervalued prices.

Nutrien

Nutrien (TSX:NTR)(NYSE:NTR) is a global leader in the fertilizer industry. The company produces and sells roughly 27 million tonnes of potash, nitrogen, and phosphate every year.

The price cycle for these commodities is now on an upward trend after a multi-year slump. Current prices are above their three-year average, but still below levels needed for producers to invest in new mines and assets, putting Nutrien in a sweet spot.

In the years before the merger of Potash and Agrium that created Nutrien in early 2018, the two companies completed major capital programs that built world-class facilities that could scale up output when the market recovered. This means investors don't have to worry about large expensive overhauls that would drain cash flow that can be paid out as dividends or used to buy back shares.

As crop nutrient prices rebound, Nutrien has the potential to be a free cash flow machine.

The stock is back down to $72 per share from a recent high of close to $79. Investors should take advantage of the pullback to add Nutrien to their RRSP portfolios.

This should be a great buy-and-hold stock to play the global growth in food demand that is expected to accompany rising populations and improved middle-class wealth in the next 30 years.

Investors should see steady dividend growth over the medium term. The current payout provides a yield of 3%.

TD

TD (TSX:TD)(NYSE:TD) is a giant in the Canadian banking industry with a market capitalization of nearly $160 billion. The bank is also one of the top 10 players in the U.S. market.

TD spent the past 15 years building its American retail business. As the U.S. economy rebounds from the pandemic TD should benefit. The bank reported fiscal Q2 2021 adjusted earnings of $3.8 billion and reversed $377 million in provisions for credit losses set aside last year.

TD is sitting on billions of extra cash. The CET1 ratio at the end of the last quarter was 14.2%, well above the 9% required by regulators. While some loan default risks still remain once government aid ends later this year, TD and its peers have avoided the worst-case scenario.

TD could use the cash pile to make another acquisition in the United States to boost growth. Investors should also see a stream of dividend increases and share buybacks once the banks get permission to deploy more cash to shareholders. TD has a compound annual dividend growth rate of at least 10% over the past two decades. Distribution hikes should match or exceed that level in the next few years.

Interest rate hikes in the United States and Canada are expected to begin in 2022 or 2023. This would potentially put pressure on some borrowers, but the net impact of higher rates tends to be positive for banks.

The bottom line on RRSP investing

Nutrien and TD are two of Canada's top companies. They enjoy leadership positions in their industries and should deliver solid long-term gains for buy-and-hold RRSP investors. The stocks look attractive right now and should be top picks on a meaningful pullback in their share prices.

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