2 Cheap Canadian Stocks for RRSP Investors

Description

Canadian savers are using their RRSPs to hold top stocks. Deals are harder to find in the current market, but investors can still buy great companies at cheap or even undervalued prices today.

Canadian National Railway

Canadian National Railway (TSX:CNR)(NYSE:CNI) trades near $131 per share at the time of writing compared to $148 in April. The stock is down due to uncertainty around CN's bid to buy **Kansas City Southern**, a smaller railway located in the United States.

CN has agreed to pay US$30 billion for Kansas City Southern. That's 20% above the price **Canadian Pacific Railway** was going to pay until CN made a higher offer. Canadian Pacific Railway received a US$700 million break fee that CN already reimbursed to Kansas City Southern. If regulators block the takeover, CN would have wasted this money that could have gone to shareholders.

Large acquisitions come with risks, and the market is punishing CN right now for the move to buy Kansas City Southern. The drop in the share price, however, should be a good entry point for buy-and-hold investors, regardless of how the Kansas City Southern deal pans out.

The addition of Kansas City Southern would give CN key routes that connect the United States and Mexico. CN is already unique in the industry with its rail network that connects ports on three coasts. Trade between Canada, the United States, and Mexico is set to expand in the coming years. CN's existing routes are key to the efficient movement of goods, and that will continue to be the case for decades.

In the event the deal gets scrapped, CN would remain the same size and still be a very profitable company with strong growth potential.

The stock looks cheap right now, and buying on dips has proven to be a rewarding strategy over the past 25 years.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) transports 25% of the oil produced in Canada and the United States. It is also a major player in the natural gas transmission sector and has a growing renewables energy group. Oil demand is rising, as the U.S. and Canadian economies emerge from the pandemic. People are starting to head back to the office, and airlines are rapidly adding new flights to meet a surge in travel. As a result, gasoline and jet fuel use will rebound in the next six months, and strong demand is expected through 2022 and beyond.

Enbridge moves oil from producers to the refineries that make the fuels. The recovery in demand should push throughput on the oil pipelines back towards capacity levels.

Enbridge has a strong capital program that will drive organic revenue growth and support dividend increases in the next few years. The bulk of the investment is focused on the natural gas and renewable energy sides of the business. These assets held up well last year and enabled Enbridge to raise the dividend, even as the oil sector slumped.

Enbridge currently trades near $49 per share and provides a 6.75% dividend yield. The stock price was $56 before the pandemic, so investors should see some decent upside as the energy sector recovers.

The bottom line on RRSP investing

CN and Enbridge are leaders in their respective industries. The stocks look cheap today and should deliver attractive returns for buy-and-hold RRSP investors.

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