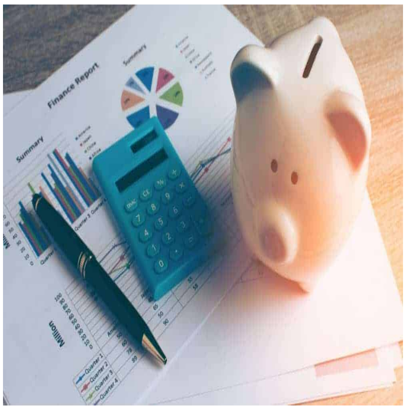

1 Top Canadian Stock to Buy for Your RRSP

Description

Investors are constantly searching for top Canadian stocks to add to their RRSP portfolios. The overall TSX Index looks expensive right now, but a few industry leaders currently appear undervalued.

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Best stocks for RRSP investments

The best stocks to buy for an RRSP tend be companies that provide essential services or products. They are often market champions and grow revenue along with the expansion of the broader economy.

Look for businesses that generate strong free cash flow and have a good track record of returning profits to investors through increased dividends and share buybacks. This normally results in a steady rise in the share price over the long haul.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) had a nice run off the 2020 market crash low. The stock rebounded from $99 per share in March 2020 to $148 in April 2021. Since then, the share price has been under pressure. At the time of writing, the stock trades at $133.

The drop occurred as a result of CN's US$30 billion bid to buy **Kansas City Southern**. Some analysts think the price is too high after CN offered 20% more than Kansas City had agreed to accept from CN's smaller rival, **CP Rail**.

The deal has to clear regulatory hurdles. In the event the government authorities kill the agreement, CN would be out US$700 million it gave to Kansas City Southern to cover a break fee with CP Rail.

CN says 1,750 letters of support have been sent to the Surface Transportation Board (STB) in the United States. CN hopes the STB will approve a proposed voting trust structure and eventually allow the two firms to combine.

If successful, the two companies would create a rail network that runs from Canada to Mexico.

CN stock price outlook

Uncertainty around the deal has kept CN stock from extending its rally, and ongoing volatility should be expected until the STB provides its final approval or rejection.

The dip in CN's share price gives investors a great opportunity to pick up a top Canadian stock at a cheap price. If the deal goes through, CN becomes a leading player in the NAFTA trade network, and the share price should soar.

In the event the takeover is blocked, CN simply remains a very profitable business that directly serves Canada and the United States connecting three coasts. In this situation, the stock should start to drift back up to the 2021 high.

Dividends

CN generates enough cash flow to cover the capital investments needed to meet growing demand for its services. The company also has enough cash left over to pay dividends. In fact, the compound annual dividend-growth rate since the company went public is about 15%. That's one of the best dividend-growth track records in the TSX Index.

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The bottom line on RRSP investing

Owning top dividend stocks and using the distributions to buy new shares is a proven strategy for building retirement wealth. CN is a great example. A $10,000 investment in the stock when it went public would be worth more than $450,000 today with the dividends reinvested.

There is no guarantee the stock will deliver the same results over the next two decades, but CN still deserves to be a core RRSP holding, and the stock price looks cheap today.

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