



RRSP Investors: 2 Top Canadian Stocks to Buy Now for Dividend Growth in 2022

Description

RRSP investors are always searching for top stocks to buy that will provide steady dividend growth and attractive total returns.

Algonquin Power

Algonquin Power ([TSX:AQN](#)) ([NYSE:AQN](#)) raised its dividend by 10% in each of the past 10 years. There is a good chance investors will see a similar increase in 2022.

Algonquin Power recently announced plans to buy Kentucky Power for US\$2.846 billion. The deal is expected to be accretive to adjusted net earnings in the first full year after closing and deliver net earnings accretion of around 5% per year afterwards.

To pay for the deal Algonquin Power already raised \$800 million through a bought-deal share issue. In the Q3 2021 earnings release, the company said it is considering a combination of hybrid debt, equity units, and the possible sale of non-regulated assets or investments to fund the rest of the takeover costs. Algonquin Power has acquisition financing lined up to get the deal done but needs to find longer-term funding.

The company has a good track record of making successful acquisitions to drive growth, so investors should feel comfortable this one will deliver the expected results. That being said, this is a big target for Algonquin Power and the market is wondering if it might be biting off more than it can chew. As a result, the stock is down and could trade in a tight range until management provides more clarity on the ultimate financing mix.

At the time of writing, Algonquin Power trades near \$17.70 per share and provides a 4.8% dividend yield. The 2021 high is around \$22.50, so there is decent upside potential to go along with the generous dividend. Some volatility should be expected, but the stock appears undervalued right now and should be a solid pick for buy-and-hold RRSP investors.

Canadian National Railway

Canadian National Railway ([TSX:CNR](#))([NYSE:CNI](#)) had a busy year with a lot of distractions. Looking ahead for 2022, the situations should be more stable, and investors are likely to benefit as a result.

CN tried to buy **Kansas City Southern**, a U.S. railway with tracks connecting to Mexico, for US\$30 billion plus debt. The bid was 20% above an already generous offer from **CP Rail**. In the end, regulators effectively forced CN to abandon the effort, and CP is now working through the process of buying KCS for a sweetened US\$27 billion plus debt.

CN's management team took some heat from institutional investors for the takeover attempt and the situation has resulted in the CEO announcing his retirement in early 2022. With the deal off the table, the board reinstated the share-buyback program, and investors should see a big dividend increase next year.

CN is a very profitable business and generates significant free cash flow. The company is putting a new cap on capital expenditures after a few years of heavy investments on locomotives, rail cars, and network upgrades. The result should mean even more cash available to return to shareholders.

CN is one of Canada's top dividend-growth stocks over the past two decades, and long-term investors have enjoyed great returns. In fact, a \$10,000 investment in CN 20 years ago would be worth about \$195,000 today with the dividends reinvested!

The bottom line on top stocks for RRSP growth

Algonquin Power and CN are top dividend stocks that should deliver attractive payout increase in 2022 and solid total returns in the coming years. If you only buy one, I would probably make Algonquin Power the first choice today. The stock appears oversold and provides an above-average yield.

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