2 Top Canadian Dividend Stocks to Buy on Pullbacks

Description

Market volatility is expected to continue in 2022, as investors evaluate the risks connected to rising interest rates, soaring inflation, and geopolitical uncertainty. Pullbacks in stock prices can be stressful, but they also give buy-and-hold investors an opportunity to acquire top dividend stocks at attractive levels while increasing the yield on their savings.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $87.50 per share at the time of writing. That's already down from the 2022 high of $95. Investors who buy the stock at this level can pick up a solid 4.5% dividend yield with a generous payout hike likely on the way later this year.

The broader Canadian bank sector has pulled back due to concerns about future profit growth connected to rising borrowing costs for homeowners and businesses and the potential negative impact on net interest margins from the recent inversion of bond yields. These are valid points to consider, and near-term weakness might continue. The new bank tax unveiled in the 2022 Canadian budget could also force investors to trim bank positions.

Any meaningful dip from the current share price, however, should be viewed as a good opportunity to buy Bank of Nova Scotia stock. The company's international operations located in Latin America had a rough ride in the past two years, but the group is bouncing back, and the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia offer attractive long-term growth potential for Bank of Nova Scotia.

Goods, labour, and capital can move freely between these markets. Banking penetration is only about 50% in the trade bloc, which has a total population of more than 230 million. Commercial banking opportunities are strong as well. Companies that take advantage of the open trade conditions need a variety of cash-management services. Bank of Nova Scotia's presence in all four markets gives it an advantage.

Long-term investors have done well with Bank of Nova Scotia stock. A $10,000 investment in the shares 25 years ago would be worth about $170,000 today with the dividends reinvested.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) trades near $157 per share at the time of writing compared to a recent high around $170. The stock went on a wild ride in 2021 with all the distractions connected to CN's attempted acquisition of Kansas City Southern in the United States.

The deal didn't pan out, and a dispute with a major shareholder is now over. CN's new CEO is focused on driving more efficiency into the business while increasing returns for shareholders. CN raised the dividend by 19% for 2022. The company also has an aggressive share-buyback plan in place that will see CN repurchase up to 42 million common shares, or roughly 6.8% of the outstanding float through the end of January next year.

The company enjoys a wide competitive moat. CN is the only rail operator with routes connecting ports on three coats in Canada and the United States. Revenue comes from both the Canadian and U.S. operations and is balanced across a variety of segments that include automotive, forestry, coal, oil, fertilizer, and finished goods. As the U.S. and Canadian economies expand CN will play a key role in moving essential goods to domestic and international clients.

CN generates strong free cash flow to support steady dividend increases. The stock has one of the best dividend-growth track records in the TSX over the past two decades. Investors have enjoyed great total returns over that time. A $10,000 investment in CN stock 25 years ago would be worth more than $580,000 today with the dividends reinvested.

The bottom line on top stocks to buy on pullbacks

Bank of Nova Scotia and CN are top-quality companies with strong businesses that support steady dividend growth. If you are searching for anchor picks for a TFSA or RRSP portfolio, these stocks deserve to be on your radar when the market corrects.

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2. Investing

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2. NYSE:CNI (Canadian National Railway Company)
3. TSX:BNS (Bank Of Nova Scotia)
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Date
2025/09/10
Date Created
2022/04/10
Author
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