Building Wealth: 2 Stocks to Start a Self-Directed RRSP

Description

The recent pullback in the **TSX Index** is giving RRSP investors a chance to buy some top Canadian stocks at cheap prices.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $82.50 per share at the time of writing. That's down from the 2022 high of $95. The stock now looks undervalued at just 10.3 times trailing 12-month earnings and provides a dividend yield of 4.85%.

Ongoing volatility should be expected, and additional downside is definitely possible for the stock, but investors with a buy-and-hold investing strategy might want to start nibbling.

Bank of Nova Scotia remains very profitable, despite the pandemic challenges that hit the international operations in 2020 and early 2021. The company reported fiscal Q1 2022 net income of $2.74 billion compared to $2.4 billion in the same period last year. Return on equity rose to 15.8% from 14.2%.

Adjusted earnings rose 32% in the Canadian banking business. International banking adjusted net income increased 38%. Bank of Nova Scotia finished fiscal Q1 2022 with a CET1 capital ratio of 12%. This means the bank has excess cash it can use to reward investors and make acquisitions to drive revenue growth.

The bank is buying back up to 36 million shares under the current repurchase program. That's up from the 24 million it initially planned to buy. Bank of Nova Scotia also announced a $1.3 billion deal to increase its ownership of Scotiabank Chile to 99.8%.

The Latin American operations offer attractive growth opportunities for the bank. Bank of Nova Scotia has a large presence in Mexico, Peru, Chile, and Colombia. These countries form the core of the Pacific Alliance trade bloc and are home to more than 230 million people. Bank penetration is around 50% in these markets, so there is good potential to increase loans and sell investment products as the middle class expands.

CN

CN (TSX:CNR)(NYSE:CNI) trades near $155 per share at the time of writing compared to $170 last month. The company just reported Q1 2022 results that missed expectations due to bad winter weather, global supply chain issues, and a smaller grain crop in Canada. CN still delivered a 5% increase in revenue compared to the same period last year. Adjusted operating income rose 4%.

CN originally anticipated adjusted diluted earnings-per-share (EPS) growth of 20% in 2022. That's now set at 15-20% due to ongoing uncertainties in the global markets. Free cash flow is targeted at $3.7 to $4 billion compared to the previous guidance of $4 billion.

Despite the near-term challenges, the company is still on track to generate strong 2022 results. Investors received a 19% dividend increase for 2022 and CN is buying back up to 6.8% of its outstanding stock under the current share-repurchase program.

Buying CN shares on a dip has historically proven to be a savvy move for retirement investors. A $10,000 investment in CN 25 years ago would be worth about $530,000 today with the dividends reinvested.

The bottom line

Bank of Nova Scotia and CN are top Canadian stocks that look cheap right now and have delivered attractive total returns to RRSP investors over the years. If you have some cash to put to work, these stocks deserve to be on your radar.

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3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CNR (Canadian National Railway Company)

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