RRSP Investors: 2 Oversold TSX Stocks to Buy for Dividend Growth

Description

The recent market pullback is giving Canadian investors a chance to buy top dividend stocks at undervalued prices for their RRSP portfolios.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) has paid a dividend to shareholders every year since 1829. The bank raised the payout by 25% for fiscal 2022 and another large increase should be on the way for next year.

Bank of Montreal is buying Bank of the West in the United States for US$16.3 billion in a deal that will enhance Bank of Montreal's presence in the California market and expand the operations of the U.S. subsidiary BMO Harris Bank by more than 500 branches. The purchase should drive steady revenue and profit growth in the coming years and gives Bank of Montreal's investors good exposure to economic growth south of the border through a top TSX company.

Bank of Montreal is using the large cash hoard it built up during the pandemic to pay for the acquisition. The bank is also buying back shares under a new repurchase plan announced late last year.

Bank stocks are down in recent weeks due to market fears about a potential recession caused by aggressive rate hikes by the Bank of Canada and the U.S. Federal Reserve. Investors in Canada are also worried about a potential crash in the housing market.

Bank of Montreal has less exposure to the housing market than some of its peers and while economic headwinds face the banks in the medium term, the pullback in the share prices appears overdone. Bank of Montreal trades near $131 per share at the time of writing compared to $154 earlier this year.

Investors who buy BMO stock at the current price can pick up a 4% dividend yield.

Telus

Telus (TSX:T)(NYSE:TU) trades near $31 per share at the time of writing compared to the 2022 high above $34.50.

The company has a great track record of dividend growth with typical increases coming twice per year for average annual distribution growth of 7-10%. Telus generates strong revenue and cash flow from its mobile, internet, and TV services. Growth opportunities exist in the security segment and Telus is expanding its 5G network.

The company expects to wrap up its copper transition initiative by the end of this year. Ongoing investment in the 5G network will support added growth while capital outlays are expected to level off in the next few years. This should free up more cash to return to shareholders.

Telus doesn't own a media business, but it has invested in new startups that are growing quickly and could become meaningful contributors to revenue growth in the coming years. Telus Health is a leader in providing Canadian doctors, hospitals, and insurance companies with digital solutions. Telus Agriculture is helping farmers take advantage of digital platforms and technology to make their businesses more efficient.

Telus tends to be a good defensive stock to buy for a retirement portfolio. Investors can currently get a solid 4.4% dividend yield.

The bottom line on top TSX dividend stocks

Bank of Montreal and Telus are top TSX dividend stocks that look cheap to buy right now for a self-directed RRSP. If you have some cash to put to work, these stocks deserve to be on your radar.

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