Retirement Investors: 2 Oversold TSX Dividend Stocks to Buy on the Pullback

Description

The market correction is giving retirement investors a chance to buy top TSX dividend stocks at undervalued prices for their self-directed RRSP or TFSA portfolios.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) trades near $140 per share at the time of writing compared to $170 earlier this year. Recession fears are driving down rail stocks, as investors try to figure out if an economic downturn will translate into a large drop of demand for rail services.

CN will likely see a slowdown in some segments, but freight demand is expected to remain robust for most of CN's services. The company moves cars, coal, crude oil, grain, fertilizer, forestry products, and finished goods. Countries, corporations, and consumers can't get enough of most of these commodities and goods, and it will be some time before the market gets back to a balanced state, even as the U.S. Federal Reserve, and the Bank of Canada drive up interest rates to cool off inflation.

CN raised its dividend by 19% for 2022. Another generous payout increase is likely on the way for 2023. The company is also buying back up to 6.8% of its outstanding stock under the current share-repurchase program.

Management reduced its guidance for the year when the Q1 2022 numbers came out, but CN still expects adjusted diluted earnings per share to rise 15-20%. Free cash flow is targeted at $3.7-$4.0 billion.

Investors sometimes skip CN due to the low dividend yield, which is currently 2%. The dividend-growth rate, however, is typically more important than the yield at the time of purchasing the stock. CN is one of the best dividend-growth stocks in the **TSX Index** over the past two decades and has generated attractive total returns.

A $10,000 investment in CN stock 25 years ago would be worth about $435,000 today with the dividends reinvested.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades for close to $126 per share right now compared to a high near $150 earlier this year. At just 11 times trailing 12-month earning the stock currently appears undervalued and offers a solid 4% dividend yield with strong distribution growth likely on the horizon.

Royal Bank increased the dividend by 11% late last year and just raised it again by another 7% when management announced fiscal Q2 2022 results. These generous payout increases suggest the board and management team are comfortable with the revenue and profit outlook over the next few years, even as the risk of a recession continue to rise.

Royal Bank has a balanced revenue stream that comes from personal banking, commercial banking, capital markets, wealth management, investor and treasury services, and insurance operations. The bank built up a war chest of excess cash over the last two years and is now deploying the funds. Royal Bank is buying a wealth management business in the U.K. for $2.6 billion. Additional deals could be on the way to help drive future growth.

A $10,000 investment in Royal Bank 25 years ago would be worth just over $200,000 today with the dividends reinvested.

The bottom line on cheap stocks to buy during a market correction

CN and Royal Bank are leaders in their industries and have great track records of delivering dividend growth and strong total returns. If you have some cash to put to work in a TFSA or RRSP, these stocks deserve to be on your buy list.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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aswalker