RRSP Top Picks: 2 Oversold TSX Dividend Stocks to Buy Now

Description

RRSP investors are searching for undervalued dividend stocks to buy today that can deliver attractive long-term total returns in self-directed portfolios.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) trades near $148 per share at the time of writing compared to the 2022 high around $170. Buying CN stock on dips has historically proven to be a savvy move for RRSP investors.

A $10,000 RRSP investment in CN stock 25 year ago would be worth more than $390,000 today with the dividends reinvested.

CN's new CEO is focused on driving efficiency in the business and maximizing returns for investors. The board raised the dividend by 19% for 2022. Another generous payout increase is probably on the way for 2023. CN has one of the best dividend-growth track records in the **TSX Index** since the company went public more than 25 years ago.

CN is also returning capital to shareholders through an aggressive share-buyback plan. The company can repurchase up to 42 million shares, or about 6.8% of the outstanding stock, over a 12-month period under the current normal course issuer bid (NCIB). Share buybacks result in more profits being available for remaining shareholders. They also help boost per-share earnings results that can lead to upward momentum in the share price.

CN generates strong free cash flow and enjoys a wide competitive moat. The railway is the only player in the industry with tracks connecting ports on three coasts. CN's dividend yield might appear a bit low at just 2%, but investors should focus more on the dividend growth and the capital appreciation.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades for $123 per share at the time of writing compared to more than $149 near the beginning of this year. The steep drop is part of a broad selloff in financial stocks that has occurred due to rising recession fears.

Investors are concerned that rising prices for essentials like food and gas will combine with soaring interest rates to hammer households in the coming months, as they battle the effects of high inflation and a jump in loan expenses. Discretionary spending could grind to a halt, leading to a recession and a reversal in the jobs market.

Royal Bank's analysts are predicting a short and mild recession next year. Economists, on average, seem to be pegging the odds of a recession at 50%. If things get really ugly and defaults on loans and mortgages soar, Royal Bank and its peers will likely take a hit. That being said, the bank has a strong capital position to ride out any turbulence, and the situation would have to be quite bad before there is a meaningful impact on the bank.

Royal Bank generated strong results in the first half of fiscal 2022, and the bank is on track to top its strong 2021 earnings results.

The pullback in the stock price appears overdone. Investors can now pick up a decent 4% dividend yield and wait for the next payout increase to boost the base return. The board raised the dividend by 11% late last year and increased it by another 7% when Royal Bank reported fiscal Q2 2022 earnings.

A $10,000 investment in RY stock 25 years ago would be worth more than $170,000 today with the dividends reinvested.

The bottom line on top TSX stocks to buy now

CN and Royal Bank are industry leaders with long track records of dividend growth. If you have some cash to put to work in a self-directed RRSP, these stocks deserve to be on your radar.

CATEGORY

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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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