Early Retirement: 2 Top Undervalued Canadian Dividend Stocks to Buy for Total Returns

Description

The market pullback can be scary, but it also provides investors with a good opportunity to buy top TSX dividend stocks at undervalued prices for a TFSA or RRSP portfolio.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) trades for close to $65.50 per share compared to $88 a few weeks ago. The drop in the price of oil from US$120 to below US$100 is responsible for the pullback in oil stocks.

Ongoing volatility should be expected in the near term, as traders try to figure out how much new supply will come to market. Industry insiders say global producers have limited room to boost output in a meaningful way due to a lack of investment over the past two years. At the same time, fuel demand should continue to recover from the pandemic drop, as commuters start heading back to offices, and airlines ramp up capacity to meet surging travel demand.

Oil at US$80 or higher is very profitable for Canadian Natural Resources, and the market might still not realize the strength of the natural gas side of the business. Canadian Natural Resources is a major natural gas producer. Natural gas trades for US$9.10 per million British thermal units (BTU) at the time of writing. That's up 148% in 2022. International demand for Canadian and U.S. natural gas is rising, as Europe scrambles to end its reliance on Russia and power utilities around the globe switch to natural gas from oil and coal to produce electricity.

CNQ shares look undervalued right now, and investors can pick up a 4.5% dividend yield. The board has raised the dividend in each of the past 22 years and hiked the payout by 28% for 2022.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades near $122 per share right now. That's down from the 2022 high above $149. The steep drop across the entire bank sector over the past few months occurred, as investors have become increasingly worried that the economy is headed into a recession. Royal Bank's own analysts predict a mild and short recession for next year. Economists broadly put the odds at 50%.

A downturn is expected, as the Bank of Canada drives up interest rates in an effort to reduce inflation. High prices and soaring debt costs are a double hit for households. Spending on discretionary items could grind to a halt, as more income and savings go towards putting food on the table and paying the mortgage.

Despite the headwinds, Royal Bank remains in good shape. Earnings for the first six months of fiscal 2022 topped the 2021 results, so the bank is on track to beat the strong performance of last year. Royal Bank generated $16.1 billion in profits in fiscal 2021. Return on equity (ROE) remains high near 18%, and Royal Bank has a strong capital cushion to ride out turbulent times.

The board raised the dividend by 11% near the end of last year after the government lifted the pandemic ban on bank dividend hikes. Royal Bank raised the payout by another 7% when it reported fiscal Q2 2022 results. Investors should view this as a sign that management isn't too worried about revenue or profits in the coming year.

Additional weakness is possible in the near term, but RY stock looks oversold right now and offers a 4.2% dividend yield.

The bottom line on cheap TSX stocks to buy now

CNRL and Royal Bank are leaders in their respective industries and pay attractive dividends that should continue to grow. If you have some cash to put to work in a TFSA or RRSP portfolio, these stocks deserve to be on your radar.

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aswalker