New RRSP Investors: 1 Top TSX Total-Return Stock to Build Retirement Wealth

Description

Canadian savers can take advantage of the market pullback to buy top TSX total-return stocks at cheap prices for their self-directed RRSP portfolios.

Canadian National Railway

CN (TSX:CNR)(NYSE:CNI) is catching a bit of a tailwind after reporting strong Q2 2022 results. The stock trades near $157 per share at the time of writing. This is off the 2022 low around $138 it hit in June but still down from the year-to-date peak of $170. CN stock looks undervalued at this point and could deliver big gains through the rest of the year.

CN generated record Q2 revenues of $4.34 billion, up 21% over the same period last year. Adjusted operating income came in 29% higher at $1.78 billion and adjusted diluted earnings per share (EPS) hit $1.92 — up 30% from Q2 2021.

Free cash flow in the first six months of 2022 rose to $1.57 billion, up from $1.28 billion in the first half of 2021. Management reaffirmed the growth outlook for 2022. Adjusted diluted EPS growth is expected to be 15-20%, and the free cash flow target of $3.7-$4.0 billion remains in place. That's good news for investors who are anticipating a big dividend increase in 2023.

CN saw strong year-over-year Q2 revenue gains in most of its segments. Automotive jumped 50%, coal soared 56%, oil and chemicals increased 18%, metals and minerals popped 20%, forest products rose 11%, and intermodal revenues increased 26%. Grain and fertilizer slipped 3%.

Revenue gains came from CN's ability to pass rising costs through to customers. This is important for investors to consider in the current environment of high inflation.

Buybacks and dividends

CN is using excess cash to buy back up to 6.8% of the outstanding stock under the current 12-month share-repurchase plan, and it wouldn't be a surprise to see another aggressive return of capital in 2023. Share buybacks benefit investors by driving up earnings per share (EPS). Remaining investors receive a larger slice of the profits and EPS growth tends to support higher share prices.

CN has a great track record of raising the dividend every year. The compound annual dividend growth rate is about 15% since the company went public in the 1990s. This is one of the best performances in the **TSX Index** over that timeframe. The board increased the payout by 19% for 2022. Investors sometimes skip CN due to the low dividend yield of about 2%, but that is a mistake. The dividend growth is more important over the long run, especially for buy-and-hold investors seeking attractive total returns.

Risks

CN's revenue growth moves in step with the Canadian and U.S. economies. A sharp economic downturn in the next 12-24 months would likely put pressure on some segments of the operations. That being said, CN tends to perform well in good times as well as during economic downturns. Economists currently predict a mild and short recession in 2023.

The bottom line on top stocks to buy now

CN is a great example of a top TSX dividend-growth stock that has the ability to deliver strong total returns for retirement investors. A $10,000 RRSP investment in CN shares 25 years ago would be worth about $390,000 today with the dividends reinvested.

If you have some cash to put to work in a self-directed RRSP, this stock deserves to be on your radar.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Investing

Date
2025/07/21
Date Created
2022/07/27
Author
aswalker