2 Top Canadian Dividend Stocks to Buy Now for a Self-Directed RRSP

Description

The market has staged a decent rebound off the 2022 lows, but RRSP investors can still find some top TSX dividend stocks to buy at undervalued prices.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) earned $16.1 billion in net income in fiscal 2021 and generated a 6% increase in profits through the first half of fiscal 2022. Return on equity (ROE) remains high at 18.4%, and Royal Bank's 13.2% common equity tier-one (CET1) ratio means the bank has significant excess capital on hand to ride out a downturn or return cash to shareholders through dividends and share buybacks.

Despite the solid results, the stock has fallen from $149 earlier this year to $119 in July. A rally over the past few weeks has RY stock back up to $129, but the share price still looks cheap.

Royal Bank's analysts predict a mild and short recession next year. That's consistent with the general consensus among economists. The Bank of Canada and the U.S. Federal Reserve are raising interest rates in an effort to cool off the economy and drive down inflation. The combination of higher borrowing costs and persistently high prices will hit spending and force households to tap savings to buy essentials, pay bills, and cover mortgage payments.

Despite the headwinds, Royal Bank should still deliver solid revenue and profit growth. Higher interest rates normally boost net interest margins for the banks, and this will help offset some of the negative effects.

Royal Bank raised the dividend by 11% late last year and increased the payout by another 7% when it reported the second quarter (Q2) 2022 results. This would suggest that the management team is comfortable with the revenue and profit outlook.

Long-term Royal Bank investors who'd bought the stock on previous dips have enjoyed strong returns. A $10,000 investment in the shares 25 years ago would be worth nearly $200,000 today with the dividends reinvested. RY stock currently provides a 4% dividend yield.

Telus

Telus (TSX:T)(NYSE:TU) reported Q2 2022 results that indicate recession fears have not impacted the business. The company generated adjusted net income of $422 million in Q2 2022 compared to $348 million in the same period last year.

Telus accelerated capital spending in the past couple of years to get ahead on its copper-to-fibre transition and ramp up the expansion of the 5G network. Management expects the capital outlays to drop considerably in 2023 and return to annual investments of about $2.5 billion. This should free up more cash for dividend increases and share buybacks. Telus normally raises the dividend by 7-10% per year.

The stock trades near $30 compared to the 2022 high around $34. Investors who buy now can pick up a 4.5% dividend yield and wait for the steady dividend increases to boost their return. Telus is a good defensive stock to buy if you are of the opinion the economy is headed for a deep or prolonged recession.

The bottom line on top TSX dividend stocks to buy for a self-directed RRSP

Royal Bank and Telus pay attractive dividends that should continue to grow. If you have some cash to put to work in a self-directed RRSP focused on dividends and total returns, these stocks look cheap today and deserve to be on your radar.

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aswalker