RRSP Alert: 1 Top Oversold TSX Stock to Buy for Dividends and Total Returns

Description

The deeper the market correction goes the better the opportunity gets for self-directed RRSP investors who are seeking top Canadian stocks to add to their personal pension funds.

Canadian National Railway

CN (TSX:CNR) (NYSE:CNI) is a giant on the **TSX Index** with a market capitalization of $107 billion. The company is the only rail operator in North America with tracks that connect to ports on three coasts. This gives CN a competitive advantage when domestic and international customers are searching for the best routes to move their cargoes.

The rail industry overall enjoys a wide competitive moat. New rail networks are nearly impossible to build and the existing ones that cover the same routes have lots of business to share. Companies that need to move goods over long distances can sometimes choose between railways, trucks, and airplanes. With fuel prices soaring, using trucks instead of the railway is becoming less attractive.

CN is a good stock to buy if you want to get exposure to the U.S. economy through a leading Canadian business. The railway generates significant revenue in U.S. dollars. This can have a meaningful upside impact on earnings when the American dollar strengthens against the Canadian dollar, as it has in recent weeks.

The stock trades for less than $154 at the time of writing compared to $165 two weeks ago.

CN Earnings

CN posted strong Q2 2022 results that show the railway has the ability to raise prices to offset rising fuel costs. This is important in the current era of high inflation. Adjusted net income in the quarter was $1.3 billion compared to $1. billion in the same period last year. CN is on track to top the strong 2021 results. Adjusted net income in the first half of 2022 was $2.3 billion compared to $1.9 billion in the first six months of last year.

Management confirmed 2022 guidance for adjusted diluted earnings per share growth of 15-20% and free cash flow of $3.7 to $4 billion. This should lead to another generous dividend increase in 2023. CN raised the payout by 19% for 2022. The compound annual dividend growth rate over the past 25 years is about 15%.

CN’s dividend yield is only about 1.9%, but investors should focus more on the dividend growth. That’s what tends to build wealth over the long haul.

CN is also returning capital to shareholders through share buybacks. The company is repurchasing up to 6.8% of the outstanding stock under the current program. The reduction of outstanding stock drives up earnings per share and this often supports a higher share price over time.

RRSP investors have done well holding CN stock through the economic cycles. A $10,000 investment in the shares 25 years ago would be worth more than $400,000 today with the dividends reinvested.

The bottom line on top TSX stocks to buy for total returns

Buying top dividend stocks on big dips can drive strong long-term returns for patient investors. If you have some cash to put to work in a self-directed RRSP focused on total returns, CN stock looks oversold right now and deserves to be on your radar.

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