



3 Expensive TSX Stocks I'd Buy if They Took a Dip

Description

If the Bank of Canada tightens its monetary policy longer than necessary to bring inflation down, elevated market volatility will persist for the rest of 2022. However, despite strong headwinds, some stocks remain expensive.

If you expect a [market pullback](#) in Q4 2022, I'd recommend buying **National Bank of Canada** ([TSX:NA](#)), **Constellation Software** ([TSX:CSU](#)), and **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)). These [large-cap stocks](#) are buying opportunities if their share prices dip due to more downward pressure.

Temporary weakness

National Bank currently trades at \$86.58 per share, is down by 7.45% year-to-date, and is approaching its 52-week low of \$82.38. The weakness is temporary, and the bank stock should eventually recover to top \$100 in one year. Market analysts covering NA have a 12-month average price target of \$102.25 (+18.1%). Meanwhile, the attractive 4.25% dividend yield is relatively safe while you wait for the rebound.

In Q3 fiscal 2022 (quarter ended July 31, 2022), net income declined 2% to \$826 million versus Q3 fiscal 2021. Management said the solid performance of all business segments was partly offset by higher provisions for credit losses (PCLs). The \$29.13 billion bank had to increase the PCL to \$57 million because of the less favourable macroeconomic outlook.

National Bank's President and CEO, Laurent Ferreira, said, "We continue to operate in an increasingly complex backdrop." Nevertheless, he adds that despite the challenges, Canada's fifth-largest bank is in a solid position owing to its strong capital levels and substantial allowances for credit losses.

Likely tumble

Constellation Software isn't winning in 2022 (-17.94% year-to-date), and another market sell-off could

send the tech stock tumbling. The current share price is \$1,922.09, so a drop to below \$1,800 should be a good entry point. This Toronto-based firm is known for acquiring, managing, and building market-leading software businesses.

The reach of this \$40.73 billion company is global (100 markets worldwide), and its software and services are used across various industries. Some of its specialized, mission-critical software solutions address the specific needs of particular industries. Constellation derives revenue from software license fees, maintenance & other recurring fees, professional service fees, and hardware sales.

In Q2 2022, revenue and net income grew 30% and 43% respectively to US\$1.61 billion and US\$126 million versus Q2 2021. Constellation's business model and vertical integration across specific business lines provide the company with competitive advantages. Because of its sufficient cash flows and available credit facility, management said it can continue to grow the business organically without additional funding.

A no-brainer buy

Canadian National Railway is a no-brainer buy for long-term investors. The \$101.75 billion company owns legacy assets (railway networks) that are essential to the Canadian economy. As a transportation leader, CNR transports 300 tons of natural resources, manufactured products, and finished goods in North America each year. It is the only railroad that connects Canada's coastlines with the United States through a rail network that spans 18,600 miles.

At \$149.18 per share, the industrial stock underperforms year-to-date (-2.93%) and pays a modest 1.96% dividend. These dividend payouts have increased at an annual rate of 12% in the last five years.

Management expects bigger volume in the second half of 2022, following the record revenue of \$4.34 billion in Q2 2022. However, this stock could still experience a pullback from current levels due to the challenging macro environment. Market analysts' low-price target is currently set at \$145 (-2.9%). Considering its significant growth prospects, this is a great stock to consider buying on the dip. CNR is expected to increase adjusted earnings at an annual rate of 15% in the next five years.

Next market correction

Keep NA, CSU, and CNR on your watchlist this quarter and consider scooping them up as long-term holds if they take a dip in the next market correction.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Tech Stocks

TICKERS GLOBAL

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

3. TSX:CSU (Constellation Software Inc.)
4. TSX:NA (National Bank of Canada)

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