3 Stocks Toronto-Dominion Bank Thinks Will Outperform This Year

Description

Last year's 11% loss on the TSX resulted in many Canadian investors doing exactly what one would expect: sell equities and move into cash. Not only did Canadian investors move into cash, but they increased their cash positions by 11% at the fastest pace since 2012.

While cash may have been one of 2015's smartest investments and holding some cash can help protect a portfolio against volatility, holding cash for too long can be a major drag on portfolio returns. With the overall TSX market cap down near 2006 levels and oil prices at unsustainable, low levels, this is a good time to be looking to re-enter high-quality and undervalued names.

One good way to begin looking for investment ideas is to see what analysts are recommending, and the team at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has identified several opportunities that it expects to generate mid to high double-digit returns in 2016.

1. TransCanada Corporation

TransCanada Corporation (TSX:TRP)(NYSE:TRP) shares just completed a major rally off its 2015 (and 2014) lows of about $40 per share. TD, however, still sees upside and has a target price of $58 on the stock. If TransCanada shares pull back, it could be an excellent opportunity to get in.

While TransCanada has been unfairly associated with its major crude pipeline projects that are stuck in regulatory limbo (Keystone XL and Energy East), the company has a diverse business model with numerous growth platforms in the natural gas pipelines and power-generation spaces.

In fact, even if Keystone, Energy East, and its LNG pipeline projects do not through (which is highly unlikely), TransCanada still has $14 billion in projects set to come online by 2018, which will drive 8% earnings growth out to 2020. The approval of its major projects represents a bonus for investors, and TransCanada estimates this could nearly double its earnings-growth rate should the projects be approved.

In the meantime, TransCanada continues to add new projects, especially in Mexico, where TransCanada already has a strong presence and the Mexican government plans to spend billions on natural gas pipeline infrastructure.

2. Air Canada

Air Canada (TSX:AC)(TSX:AC.B) is one of TD's top-picks. Currently, TD has a price target of $19 per share on the stock (well above the current price of about $7.25).

Air Canada is currently in the middle of a major transformation and has set an objective of lowering its CASM (cost per available seat mile, which is basically what the airline spends to fly one seat for one mile) by 21% by 2018 from 2012 levels.

Air Canada endured years of challenges, which saw shares drop below $1, bankruptcy, labour issues, and a massive pension shortfall. The company has resolved these major issues, reaching new labour agreements that provide major flexibility, eliminating the pension shortfall, and successfully meeting its targets for debt reduction and liquidity.

This transformation is just beginning, and with a new flexible labour agreement, Air Canada has set targets to improve its returns, margins, and reduce both its costs and debt by 2018. The company is eyeing international expansion to drive the growth necessary to fund this plan.

Currently, Air Canada is trading at a major discount to its peer group based on nearly every valuation metric, which means that Air Canada has plenty of room to be re-valued upwards as it moves forward on its transformation plan.

3. Crescent Point Energy

TD Bank has a buy rating on **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). The bank sees prices rising as much as 60% from current levels (with a target price of $23 per share based on 2016 oil prices of US$47/bbl).

Crescent Point is basically a play on an oil-price rebound, and it is a one of the best options to play the future of oil prices because it has a combination of a strong balance sheet and hedging program (which protects Crescent Point on the downside) and a high-quality asset base located in some of the most economic plays in North America (which provide strong upside potential if prices rise).

Crescent Point currently has 34% of its 2016 production hedged at about CAD$80 per barrel, which gives investors a cushion to wait out further volatility.

CATEGORY

1. Investing

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1. Editor's Choice

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1. NYSE:TD (The Toronto-Dominion Bank)
2. NYSE:TRP (Tc Energy)

3. NYSE:VRN (Veren)
4. TSX:AC (Air Canada)
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