3 Strong Buys From the Financial Sector

Description

As investors, it's our ultimate goal to outperform the overall market each and every year. There are many ways to go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that are undervalued on a price-to-earnings basis and have high and safe dividend yields.

I've scoured the financial sector and selected one large cap, one mid cap, and one small cap that meet these criteria perfectly, so let's take a quick look at each to determine which would fit best in your portfolio.

Large Cap: Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the fifth-largest bank in Canada with approximately $479.03 billion in total assets.

At today's levels, its stock trades at just 10 times fiscal 2016's estimated earnings per share of $9.57 and only 9.7 times fiscal 2017's estimated earnings per share of $9.83, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.2 and its industry average multiple of 13.1.

In addition, CIBC pays a quarterly dividend of $1.18 per share, or $4.72 per share annually, which gives its stock a yield of about 4.9%. Investors must also note that it has raised its annual dividend payment for five consecutive years, and its recent increases, including its 2.6% hike in February, has it on pace for 2016 to mark the sixth consecutive year with an increase.

Mid Cap: TMX Group Limited

TMX Group Limited (TSX:X) operates cash and derivative markets for multiple asset classes, including equities, fixed income, and energy. It also provides clearing facilities, data products, and related services to financial institutions around the world.

At today's levels, its stock trades at just 11.4 times fiscal 2016's estimated earnings per share of $3.72 and only 10.2 times fiscal 2017's estimated earnings per share of $4.17, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 21.1 and its industry average multiple of 22.1.

In addition, TMX Group pays a quarterly dividend of $0.40 per share, or $1.60 per share annually, which gives its stock a yield of about 3.8%. Investors should also note that it has maintained this annual rate since 2011, and I think its consistent cash flows from operating activities could allow it to continue to do so going forward.

Small Cap: First National Financial Corp.

First National Financial Corp. (TSX:FN) is the largest non-bank originator and underwriter of mortgages in Canada with over $93 billion in mortgages under administration.

At today's levels, its stock trades at just 9.2 times fiscal 2016's estimated earnings per share of $2.62 and only 8.6 times fiscal 2017's estimated earnings per share of $2.80, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.9 and its industry average multiple of 50.2.

In addition, First National pays a monthly dividend of $0.129167 per share, or $1.55 per share annually, which gives its stock a yield of about 6.5%. Investors must also note that it has raised its annual dividend payment for four consecutive years, and its 3.3% hike in October 2015 has it on pace for 2016 to mark the fifth consecutive year with an increase.

Which of these financial stocks belongs in your portfolio?

Canadian Imperial Bank of Commerce, TMX Group, and First National Financial are three of the most attractive investment options in the financial sector and their respective market-cap classes. Foolish investors should take a closer look at each and strongly consider establishing positions in one of them today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:FN (First National Financial Corporation)
4. TSX:X (TMX Group)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/20

Date Created
2016/03/11
Author
jsolitro