Royal Bank of Canada’s Top Portfolio Picks for 2017

Description

Early in December the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) published its Canadian equity focus list for 2017. In the report, the capital markets arm of Canada’s largest bank recommended to its institutional clientele to overweight consumer discretionary, consumer staples, and industrials, while underweighting utilities, telecoms, technology, and healthcare (see below).

And for those that are wondering why we should pay attention to these asset allocations, according to RBC, the focus list has returned, on average, 25% more than the TSX over the past five years. So while past results are not always indicative of future returns, I have summarized RBC’s top picks for your reference below.

focus-list-sector-allocations
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RBC’s Focus List sector allocations (Source: RBC Capital Markets)

focus-list-stock-picks
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RBC’s Focus list stocks. Note: cash was not included in the original report, but I’ve included it here as the weights only added to 95% (Source: RBC Capital Markets)

At the top of the list was **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), compromising 7.5% of the portfolio. RBC’s rationale to overweight its competitor follows the consensus bullish theme around TD’s U.S. banking segment, which RBC estimated will grow at 12% year over year from 2016 to 2018; and TD’s best-in-class Canadian banking segment is expected to grow 3% over the same period.

Along with TD, RBC has also recommended **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Intact Financial Corporation** (TSX:IFC) from the financial sector. According to RBC, BNS’s current valuation is attractive when compared to its peers and is discounting its strong international growth prospects. As for Intact, the insurer was recommended due to the potential of P/BV expansion, and its defensive positioning given the insurance industry’s lower correlation to underlying economic conditions.

Aside from the financials, RBC focused on household names such as **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ). RBC recommended CNQ for a few reasons. First is its attractive free cash flow profile, which the bank estimated will hit $3.2 billion in 2017 and $4.6 billion in 2018, leading to balance sheet deleveraging. Second, the bank praised CNQ's superior execution despite the oil downturn, its dividend growth, and the company's near-term growth catalysts, such as its Horizon Oil Sands project.

While the aforementioned stocks are large-cap household names, RBC also recommended a few relatively less well-known mid-caps such as grocer **Metro, Inc.** (TSX:MRU) and industrial equipment and refrigeration supplier **Toromont Industries Limited** (TSX:TIH).

While traditional food retailers have had their market share stifled due to increasing competition, according to RBC, Metro has thrived thanks to brand loyalty and a focus on delivering fresh products. Moreover, RBC noted the company's record of dividend increases and buybacks, while maintaining its relentless cost-containment measures.

Finally, the other mid-cap of the list, Toromont, was selected by RBC due to its historical earnings growth with a focus on efficiency, the potential to increase said earnings growth via acquisitions, and its consistent 20% return on equity despite a challenging environment in the dealership space. Furthermore, RBC also cited the company's low level of debt as one of the catalysts that could drive acquisitions alongside its organic growth.

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TD (The Toronto-Dominion Bank)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:CNQ (Canadian Natural Resources Limited)
7. TSX:IFC (Intact Financial Corporation)
8. TSX:MRU (Metro Inc.)
9. TSX:RY (Royal Bank of Canada)
10. TSX:TD (The Toronto-Dominion Bank)
11. TSX:TIH (Toromont Industries Ltd.)

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