2 Top Stocks to Own in 2018

Description

It is looking like 2018 will be a year of higher interest rates, lower consumer spending, global investment in infrastructure, and possibly higher oil and gas prices.

So, to this effect, my top picks for 2018 focus on financials, infrastructure, and energy names.

Here are two of those picks:

National Bank of Canada (TSX:NA)

Of the large Canadian banks, National Bank has the most upside in terms of efficiency gains in 2018. The bank is admittedly starting from a much weaker point than many of the other banks, but nevertheless, ROE at National Bank is set to increase a full 300 basis points in 2017.

In the third quarter, National Bank reported earnings per share of $1.39 compared to expectations of $1.30, exceeding expectations by a healthy margin.

With cost savings of $135 million expected in 2017 and $155 million in 2018, the bank is embarking on a company-wide efficiency improvement plan that should support any longer-term plans to diversify outside Quebec, which currently accounts for approximately 60% of its revenues.

And with capital ratios and efficiency ratios all increasing at the bank, investors have already picked up on the improvement and opportunity for the shares.

Year to date, National Bank's shares have risen 16.7%, which compares to a 3.5% rise for **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) shares, and a 7.5% rise for **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) shares.

Peyto Exploration and Development Corp. (TSX:PEY)

Where natural gas prices will trade in the coming year is unclear. There is certainly no shortage of bears, who are mostly citing record production levels.

But two things have peaked my interest. First is the fact that natural gas storage is below the five-year average, which is traditionally very bullish for natural gas prices. Second is that forecasts are calling for a very cold winter in Canada.

One thing is very clear: Peyto is a high-quality name that deserves our respect. As the lowest-cost intermediate natural gas producer, Peyto is very well positioned to reap the rewards of strengthening natural gas prices.

Peyto's shares currently yield 8.55%, and with a simple payout ratio of 40% and a payout ratio of more than 100% if we include the dividend, I would guess that management may cut the dividend soon.

But that could be viewed as a positive for the stock, and the fact that the company continues to post outstanding results in this natural gas pricing environment, with strong returns, production growth, and cost reductions continuing to bring value to the company and its shareholders, shows what a high-quality name this is.

Indeed, Peyto's third-quarter results were once again strong, with EPS increasing to $0.27 from $0.14 in the same quarter last year. Funds from operations increased 9% to $139 million.

Peyto has recently shifted much of its drilling to horizontal drilling, which brings with it greater efficiencies and a strong production profile going forward.

CATEGORY

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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:NA (National Bank of Canada)
5. TSX:PEY (Peyto Exploration & Development Corp)
6. TSX:TD (The Toronto-Dominion Bank)

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