These 3 Canadian Growth Stocks Will Definitely Survive the Next 5 Years

Description

Beyond the obvious choices, if you had to pick three Canadian stocks that you would expect to be doing well in five years' time, what would they be? Which sectors would you select them from?

Questions like these are often debated by investors and financial advisors, and help to narrow down which stocks on the TSX to buy for long-term gains. While growth investors are sometimes swayed by massive growth forecasts, however, sometimes such stock can be too volatile for conservative tastes.

Here, then, are three Canadian stocks with *realistic* growth potential. They've been chosen for their position in their sectors, chances of surviving economic upheaval, and likelihood of growth.

Canadian National Railway Co. (TSX:CNR)(NYSE:CNI) is the most modest of today's three growth stocks, looking at an attainable 4.8% expected annual growth in earnings. With a 23.7% return on investment over the next three years, Canadian National Railway is expected to use its shareholders' funds efficiently. This is always a good thing to check in a growth stock, especially one that you're thinking of holding onto long term.

Canadian National Railway has a good P/E of 14.8 times earnings. This popular infrastructure stock also has a good track record (no pun intended), which is always a good indicator if you're looking for a company to make good on its promises.

Nutrien Ltd. (TSX:NTR)(NYSE:NTR) has a 34.8% growth curve in expected annual earnings, which is both reasonable and exciting – a rare combination! It's also quite likely to materialize, as Nutrien is the largest crop input producer in the world. Although it may not seem necessary to say much more after that, it is worth pointing out that Nutrien has a high level of debt compared to net worth. Should you worry about it? Not if you bear in mind that Nutrien is the market leader in possibly one of the most defensive commodities in the world: food production.

In terms of value, Nutrien has a PB of 1.5 times book value, which isn't too bad. We won't linger on multiples, though, since the real draw of this stock lies in its high growth and market dominance. This is an agri input stock that is sure to do well over the years and go on to be a true defensive player.

SNC-Lavalin Group Inc. (TSX:SNC) is the stock you should be least worried about on this list. It has a certain amount of debt, but it's been very proactive about reducing that debt. It's a rare growth stock that doesn't hold debt, though, and SNC-Lavalin Group's low PEG of 0.8 times growth may go some way to ease any worries.

The main reasons investors should look to SNC-Lavalin Group for stability are its geographically diverse base of operations and its ubiquity in the construction world. Like Canadian National Railway, SNC-Lavalin Group can boast decent past performance, making it all the more likely to deliver on its projected annual growth in earnings of 34%.

While the main draw of these three stocks is their growth prospects – not only individually, but also via expansion of their sectors – they are also dividend payers. Those dividends may not be very high at the moment, but this could change as time goes by. Right now, you're looking at 1.72% from Canadian National Railway, 2.9% from Nutrien, and 2% from SNC-Lavalin Group. All of those dividends are set to rise by a few points next year, with Canadian National Railway set for the biggest increase, rising to 1.91%.

The bottom line

Price-wise, one could find stocks on the TSX that represent better value for money. However, as a thought experiment (and as a suggestion for moderate growth stocks), the trio above are likely to be doing well for themselves in five years' time. If you do want to buy, timing is key; while SNC-Lavalin Group isn't too badly priced, Canadian National Railway and Nutrien may look better after a dip.

That said, this is a solid and well-diversified selection of Canadian stocks for growth investors looking for sustainable and realistic capital gains over the years.

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