2 Standout Stocks to Benefit From Bullishness in Banking and Oil

Description

Two of the most popular, and most defensive, sectors of the TSX index are on the up: banking just had a great earnings season, while energy stocks are improving on rising oil prices. Let's take a detailed look at the market fundamentals and other data between standout stocks in both industries and see how to benefit from the Canadian economy's late summer one-two punch.

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Banking had a breakout Q3

The majority of the Big Six banks (or Big Five, depending on your count) recently reported big earnings increases, in some cases blowing analyst expectations out of the water. One key stock to watch on the back of this boost to home-grown financials would be **Bank of Montreal** (TSX:BMO)(NYSE:BMO).

Neither over or undervalued, Bank of Montreal is trading close to its future cash flow value, with tediously acceptable market fundamentals: a boy-next-door P/E of 14.4 times earnings, vanilla PEG of 1.1 times growth, and slightly-too-high P/B of 1.7 times book.

A 12.6% expected annual growth in earnings is good for a Big Six bank, though, and speaks of profitable times that are yet to come. Meanwhile, a dividend yield of 3.59% is weighty enough to make buying this stock for your TFSA or RRSP a good defensive play with both sizeable passive income and some growth to boot.

Interesting things are happening in oil

If there's one thing that every investor in energy knows, it's this: every time there's a hiccup in supplies, the price of oil rises. The latest bottleneck in supplies comes courtesy of deadly tropical storm Gordon, which forced the precautionary closure of two key oil platforms in the Gulf of Mexico. Sure enough, up went U.S. light crude by $1.31 a barrel to $71.11, while Brent crude rose a whole dollar to $79.15 per barrel.

Domestic investors may want to watch **Vermilion Energy** (TSX:VET)(NYSE:VET), one of the best oil-weighted stocks on the TSX index, in the midst of other precarious oil-heightening events around the world. More impactful stressors include tensions in the Middle East, and supply issues elsewhere around the world.

Overvalued by around 10% compared to its future cash flow value, Vermilion Energy is today a little skewiff on multiples, with P/E and PEG ratios made dodgy by losses, while a P/B of 2.4 times book can't even beat the Canadian oil and gas industry average.

But forget the value multiples for now; an undervalued oil stock might not be something you would want anyway. The two things that make Vermilion Energy a buy are its growth outlook and dividend yield. The former is a staggering 63.4% expected annual growth in earnings makes this the oil stock to go for if you are a high-growth investor; meanwhile, a dividend yield of 6.66% looks devilishly good.

The bottom line

It's a nice feeling to watch two of the TSX strongest suits getting played at the same time. While obviously the sources for oil prices rising are less than welcome, the boost to shareholders' portfolios *is* a welcome boon. Newcomers may want to take positions in the bigger Canadian banks and energy producers for long-term dividend and/or capital gains depending on your investment style. Either or both of the stocks above would likewise be well suited for a TFSA or retirement fund.

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