3 Top Oversold Canadian Stocks to Own for 25 Years

Description

The Canadian stock market has fallen to the point where some of the country's best companies are now trading at attractive prices.

Let's take a look at three stocks that might be interesting picks for a buy-and-hold portfolio today.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN plays an integral part in the operation of the Canadian and U.S. economies, transporting essential raw materials and finished goods from coast to coast across Canada and right through the central U.S. to the Gulf of Mexico.

The diversified business units and the revenue split between Canada and the United States gives the company a natural hedge in its business. When market forces turn negative on one segment the others tend to pick up the slack.

CN continues to invest significant funds in new locomotives, additional rail cars, and network upgrades to ensure it keeps up with growing demand and remains as efficient as possible. Despite the $3.5 billion in capital outlays for 2018, CN has still generated $1.9 billion in free cash flow through the first nine months of 2018.

The stock current trades at 14.4 times trailing earnings compared to an average of 19.5 over the past five years. The Canadian and U.S. economies are doing well and growth in oil-by-rail demand could give CN's 2019 results a nice boost.

CN has a compound annual dividend growth rate of about 16% over the past 20 years.

Suncor (TSX:SU)(NYSE:SU)

Suncor is Canada's largest integrated energy company. The oil sands and offshore production operations are best known to investors, but the downstream assets are the ones that allow the company to thrive when oil prices tank.

As an example, the refineries can generate significant margins when the differential expands between WCS and WTI or Brent pricing. In Q3 2018, Suncor generated net earnings of $1.8 billion or $1.12 per share, compared to $1.3 billion or $0.78 per share in Q3 2017.

The company has adequate pipeline access to ensure the majority of its oil sands production can get to the U.S. Gulf Coast where it fetches better prices.

Suncor is increasing its share buyback program and investors should see a healthy dividend increase in 2019.

The stock is down to $43 per share from $55 in the summer. Investors who buy today can pick up a dividend yield of 3.3%.

TransCanada (TSX:TRP)(NYSE:TRP)

TransCanada is a major player in the North American energy infrastructure sector with natural gas pipeline and storage, as well as oil pipeline assets in Canada, the United States, and Mexico.

The company has $36 billion in secured capital developments on the go that will keep the company very busy through 2023. A total of $20 billion in projects are currently underway. As the new assets are completed and go into service, TransCanada expects cash flow to increase enough to support annual dividend hikes of at least 8% through 2021, and investors should see the trend extend beyond that timeframe.

The stock is down to $53 from $63 at this time last year. The current dividend provides a yield of 5.2%.

The bottom line

CN, Suncor, and TransCanada are all market leaders with strong track record of dividend growth and currently appear oversold.

CATEGORY

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