3 Financial Stocks for TFSA Investors

Description

The pullback in the stock prices of Canadian financial institutions is finally giving investors an opportunity to add top-quality companies to their portfolios at reasonable valuations.

Let’s take a look at three financial stocks that might be interesting picks right now.

Intact Financial (TSX:IFC)

Intact is an insurance company providing property coverage for businesses and homeowners in Canada and the United States through its extended network of partners or subsidiary brands.

The company made a large acquisition in the United States in 2017 that gave Intact a solid base to expand its presence in the U.S. market where consolidation is expected to continue. The purchase of OneBeacon helped Intact deliver Q3 2018 premium growth of 23% compared to the same period in 2017. Net income increased 16% year over year for the quarter.

Intact trades at $98 per share compared to the 2018 high of $109. Investors who buy today can pick up a 2.9% yield.

Higher interest rates should help boost investment income on the funds the company has to set aside to cover potential claims.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC normally trades at a discount to its larger Canadian peers, but the current price-to-earnings multiple might be getting a bit too low, even when the risks are considered.

CIBC has heavy exposure to the Canadian housing market. A steep downturn in house prices would be negative, but the threat of that occurring might be fading. Homeowners have weathered rate hikes over the past year relatively well, and the shift in market sentiment in the past few months suggests the

Bank of Canada might slow its rate-hike pace in 2019.

CIBC spent US$5 billion to buy a U.S. bank in 2017, and that asset is providing diversification to the revenue stream. The bank continues to generate strong profits, and the dividend should be very safe. Investors who buy now can pick up the stock at just 8.7 times trailing earnings and secure a dividend yield of 5.3%.

Sun Life Financial (TSX:SLF)(NYSE:SLF)

Sun Life has invested significant time and money to build its presence in a number of markets in Asia – including India, China, Vietnam, Indonesia, Malaysia, and the Philippines. These heavily populated countries should see continued economic growth and an expansion of the middle class that should boost demand for Sun Life's insurance and investment products.

The company still gets the bulk of its profits from the Canadian and U.S. operations, but Asia offers huge long-term opportunities.

Sun Life's stock is down from its 2018 high of $56 to $45 per share, which is a reasonable 13 times trailing earnings. At this price, the dividend yield is 4.4%.

The bottom line

Intact, CIBC, and Sun Life are solid companies that appear oversold today. An equal investment in all three would provide a balanced portfolio of financial stocks, giving investors diversified exposure and attractive dividends.

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:IFC (Intact Financial Corporation)
4. TSX:SLF (Sun Life Financial Inc.)

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