Energy and Banking: Where to Get Started on Canada’s Sturdiest Stocks

Description

New investors in the TSX index have a few solid strategic choices to make before they start buying stocks in their favourite companies. A popular play for casual or long-term investors is to stack shares in defensive stocks, especially those with flawless balance sheets, that pay dividends. Below are four sturdy picks that satisfy most of the prerequisite criteria, with a satisfying blend of attractive multiples and positive earnings growth rates in two very stable industries: banking and energy.

Enbridge (TSX:ENB)(NYSE:ENB)

The first of our two top-tier energy stocks, Enbridge is up 1.53% in the last five days and looking at an impressive 37.3% expected annual growth in earnings over the next one to three years. Paying a dividend yield of 6.15% and boasting a five-year average past earnings growth rate of 33%, this is a high-performance stock in a defensive industry, and as such is custom built for a long-term passive income portfolio.

A P/E 32.9 times earnings is a touch high, though a P/B of 1.6 times book indicates near-market valuation. While a 9.6% expected ROE in the next three years is an improvement over a past-year ROE of 5%, neither percentage is significantly high.

Suncor Energy (TSX:SU)(NYSE:SU)

One of the hard core of defensive TSX index dividend-payers, Suncor Energy is up 5.55% in the last five days at the time of writing. While a year-on-year earnings growth rate has been negative, Suncor Energy’s five-year average past earnings growth of 9.1% is in line with a positive streak characterized by an expected 20.1% annual growth in earnings over the next couple of years.

A P/B of 1.6 times book shows that this stock is trading at a fair price when it comes to real-world assets. Suncor Energy, in addition to trading near market value, also pays a decently sized dividend, with a yield of 3.69%. Its 10.9% expected ROE in the next three years, while on the low side, improves upon a past-year ROE of 7%.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

In terms of earnings, BMO saw a 2% 12-month growth rate, which is below its five-year average of 5.3%. Its multiples are low, with a P/E of 12 times earnings and P/B of 1.5 times book matching TSX index norms. A dividend yield of 4.08% is the main reason to buy, and that passive income is paired with a low (but average for the banking industry) 7.4% expected annual growth in earnings. As with Suncor Energy, a 13.5% expected ROE in the next three years improves slightly on a past-year ROE of 12%.

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

CIBC's one-year past earnings growth of 11.4% and five-year average of 10.8% beat BMO's track record stats, while its P/E ratio of 9.7 times earnings also undercuts its competitor and fellow Big Six banker. CIBC's dividend yield of 4.81% is higher than that of BMO, though the former stock's 3.8% expected annual growth in earnings is lower.

The bottom line

Suncor Energy's clean balance sheet is typified by a below-threshold comparative debt level of 39.4% of net worth, indicating that this stock is healthier currently than Enbridge. Indeed, Enbridge's high comparative level of debt at 88% of the company's net worth may turn off the average casual investor with no appetite for risk in a long-term portfolio. Meanwhile, both bank stocks are solid buys, with CIBC having the edge over BMO thanks to its better track record and higher dividend yield.

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:ENB (Enbridge Inc.)
4. NYSE:SU (Suncor Energy Inc.)
5. TSX:BMO (Bank Of Montreal)
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vhetherington