Do These 3-Year Returns Justify Holding These 3 Stocks?

Description

Calculating the three-year returns for three of the biggest stocks on the TSX index leads to some surprising pieces of data. Let's see whether holding the following mix of natural resources, banking, and communications stocks is a good idea, or whether a simpler route to capital gains can be found. We'll begin by sifting through the data for each stock individually.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

Canadian Natural Resources's five-year average past earnings growth of 46.6% suggests that a negative one-year rate may simply have been the result of a hard year, though a negligible (0.1%) expected annual growth in earnings may count this one out for the steadfast growth investor.

With a so-so balance sheet indicated by above-threshold debt at 59.1% of net worth, passive-income investors will have to weigh whether to hold for the long term, though the value-focused portfolio owner might be tempted by market-beating fundamentals and a dividend yield of 3.68%.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Scotiabank hasn't budged on its year-on-year earnings, though a 5.3% five-year average growth is at least in the black. Paying a dividend yield of 4.8%, and with just under a month until it hits its buy limit, would-be investors will have to decide whether a 2.1% expected increase in earnings over the next couple of years is indicative of a lack of upward momentum.

That said, Scotiabank is one of the most popular stocks on the TSX index and a heavy hitter of the famous Big Six bankers. While its stock may be down in the last five days, it's still looking like a solid choice for stable long-term dividends.

Rogers Communications (TSX:RCI.B)(NYSE:RCI)

This popular wireless comms stock's one-year past earnings growth of 20.3% improves on its five-year average of 4.2%, while quality is suggested by an expected three-year ROE of 23.4% that looks set to continue on from a past-year return on equity of 25%.

While value might not be what investors look for in Rogers Communication (see a P/B of 4.4), its dividend yield of 2.83%, matched with a moderate 7.9% expected annual growth in earnings, could make it eligible for a long-term play.

What if you owned all three stocks?

If an investor were to hold all three stocks for three years, as a group they would yield a projected 33.2%, representing potential capitals gains of 21% and expected dividends of 12.2%. It would be a fairly secure part-portfolio, with a five-year beta of 1.13, with Canadian Natural Resources's 1.83 brought down by Rogers Communications's 0.39.

In terms of industrial diversification, wireless telecommunication services, energy, and diversified banks each make up a third of the total, while if an investor bought all three stocks right now, their combined P/B ratio would be 2.4, with a combined P/E of 13.3.

The bottom line

Looking at this three-stock portfolio in terms of heavy lifting, Rogers Communications is doing more than its fair share with 51.43% of the total. This is followed by Scotiabank's effort with 37.46%, and trailed by Canadian Natural Resources's contribution of 15.78%. In short, if one were to buy just a single stock from this trio with a view to holding it for three years, Rogers Communications should be that stock.

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2. NYSE:CNQ (Canadian Natural Resources)
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vhetherington