The Top TSX Index Stocks to Buy Now

Description

The Canadian stock market has more than 1,500 stocks. That's too many to choose from. You can use a stock screener or simply look at the top holdings of the TSX index for potential ideas to invest in.

Currently, the top holdings of the TSX index are **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Enbridge**, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), **Canadian National Railway**, **Suncor Energy** (TSX:SU)(NYSE:SU), **Bank of Montreal**, and **TransCanada**.

They're all quality stocks that typically increase their dividends. However, not all of them are good buys now because of their valuations. We've done the work for you and narrowed the list down to the top stocks that are ripe for buying. Here we go!

Bank of Nova Scotia

Bank of Nova Scotia, or Scotiabank, is a great blend of value, stable growth, and income. Other than generating core earnings in Canada, the bank also has meaningful exposure to higher-growth markets in the Pacific Alliance countries.

At $72.78 per share, the international bank trades at a price-to-earnings ratio (P/E) of about 10.2, while it's estimated to increase earnings per share by roughly 6.3% per year over the next three to five years.

At a normalized P/E, Scotiabank would be worth about $85 per share, which represents more than 16% near-term upside. Furthermore, the quality bank offers a safe yield. So, its near-term total returns potential is about 21%.

Even assuming that Scotiabank's multiple doesn't normalize, with a 4.7% yield and +6% growth rate, we're still looking at long-term returns of +10% per year. These are very good returns for an investment in a stable business with durable profitability and a track record of paying dividends.

Scotiabank has paid a dividend every year since 1832 and has increased its dividend for 43 out of the last 45 years!

Suncor Energy

As an integrated energy company and one of the largest energy stocks on the TSX index, Suncor stock has remained profitable despite low energy prices. That's also why Suncor stock has fared much better than many other energy stocks on the TSX index.

Thanks to Suncor's diversified business operations, it increased revenue by +20% to $38.5 billion in 2018. This resulted in earnings before interest and taxes of $6.6 billion and a strong interest coverage ratio of 8.3.

Suncor also brought in nearly $10.6 billion of operating cash flow in 2018. After accounting for capital spending and dividend payments, Suncor still had more than $2.5 billion of free cash flow.

Suncor has one of the strongest balance sheets in the industry and is rewarded an S&P credit rating of A- as a result. Furthermore, it's a rare dividend-growth gem in the energy space. It has increased its dividend per share for 16 consecutive years with a five-year dividend-growth rate of 14.6%.

Currently, at about $46 per share, it offers a yield of 3.1% and near-term upside of 18% (according to **Thomson Reuters's** mean 12-month target). This equates to near-term total returns potential of roughly 21%.

Investor takeaway

Scotiabank and Suncor offer the best value among the top holdings of the TSX index. They are set to deliver strong dividend income and attractive upside that can lead to market-beating returns of about 21% in the near term.

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