Investors: 3 Reasons I’m Wildly Bullish on Canadian Stocks

Description

As I survey the carnage on the Toronto Stock Exchange, I keep having the same thought over and over again. I wish I had more capital to invest, because there are some incredibly cheap Canadian stocks out there.

The short term looks bleak. I’m the first to admit that. We don’t know the long-term impact COVID-19 will have on the economy. It could take months of drastic measures to beat this devastating pathogen.

But unlike 2008-09, when it looked like the volatility would never end, I can see the light at the end of the tunnel. I can easily envision a scenario where Canadian stocks rip way higher once it’s obvious the worst of Coronavirus is behind us. Do you really want to be left behind when that happens?

In fact, I’m willing to go as far as saying I’m incredibly bullish on Canadian stocks here. There are dozens of fantastic buying opportunities today. Let’s take a closer look at three specific stocks I’ve recently added to my own portfolio.

Bank of Montreal

I feel like a kid in a toy store every time I add to a Canadian banking stock. These companies are just so cheap.

Bank of Montreal (TSX:BMO)(NYSE:BMO) isn’t the cheapest in the sector, but that doesn’t matter. Shares are still an incredible value today. As I type this, BMO shares trade at approximately $65 each. In 2019, the company earned $8.76 per share. That puts shares at right around eight times earnings. A few months ago, BMO shares were closer to 12 times earnings.

The stock is also incredibly cheap from a dividend yield perspective, with shares yielding an eye-popping 7%. Even if earnings collapse in the short term, BMO can easily afford the payout once things return to normal. The company targets a 50% payout ratio on normalized earnings.

Not only is BMO a solid member of Canada’s banking cartel — reaping all the advantages that go with membership — but it also has substantial U.S. operations. Approximately 25-30% of earnings come from the United States, with those assets poised to grow faster than domestic ones. And remember, huge investments in technology should also fuel growth as the bank uses software to make employees more efficient.

Telus

Bank stocks aren't the only Canadian stocks that have gotten incredibly cheap. **Telus** (TSX:T)(NYSE:TU) shares are also at a silly valuation.

Telus shares currently trade around $42 each. The stock earned $2.90 per share in 2019, and analysts project the bottom line to hit around $3 per share in 2020. That puts this high-quality (and recession-proof) stock at just 14 times earnings.

In fact, Telus should be one of the few companies that would benefit from our current situation. Data usage would skyrocket. People who cut cable would clamour to get the service back. And the last bill you'd want to skip during a boring few weeks at home would be the internet bill. And then, like the company does every year, it'll inevitably hike your rate.

Telus's dividend yield has also skyrocketed lately, with the yield recently surpassing 5.5%. To put that into perspective, the previous highest yield the stock offered in the last five years was 4.8%.

TC Energy

I realize the energy market is hurting, but that isn't as bad for **TC Energy** (TSX:TRP)(NYSE:TRP) as many investors think. I'm confident this pipeline operator with decades of experience behind it can weather the storm.

Remember, the company formerly known as TransCanada is about more than oil pipelines. It also owns natural gas pipelines, assets that transport the gas needed to heat our homes and provide power to natural gas-fired power plants. The company also has an interest in a 6,000 MW power generation portfolio. And I shouldn't forget the company's Mexican assets, a place where it has been making additional investments lately.

TC has been a dividend-growth stud for decades now, and it has already told investors to expect 8% dividend raises in both 2020 and 2021. Increases will slow to the 5-7% range thereafter. Combine that with the company's current 6.5% yield, and this Canadian stock immediately becomes an enticing income possibility.

Shares are also dirt cheap. TC projects it'll earn around $7.5 billion in funds from operations in 2020. The current market cap is around $50 billion. That puts the stock at under seven times forward funds from operations.

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2. NYSE:TRP (Tc Energy)
3. NYSE:TU (TELUS)
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nelsonpsmith