Top Canadian Stocks to Buy if the Market Rally Extends in May

Description

The stock market relief rally has lasted longer than expected. Many top TSX stocks have surged more than 40-50% since their lows last month. However, their first-quarter earnings will pave the path for them going forward.

However, if investors want to capitalize on this market rally, they have to be extremely picky. Some of the sectors and stocks have been punished harder while some have shown a promising bounce back.

There are some Canadian giants that might join or rather get a boost with the market rally next month after their quarterly earnings. Let's take a deeper look at these top TSX stocks.

Constellation Software

Constellation Software (TSX:CSU) is one of the biggest software companies in the country. It runs vertical market software companies that make customized applications that are designed to cater to a particular client.

It generates more than 60% of its total revenues from the government and government-related customers. Thus, the pandemic-driven lockdowns might have little or no impact on its revenues.

The $29 billion tech giant plans to release its first-quarter earnings on May 7. The company has seen steady revenue and earnings growth in the last several quarters. Analysts expect superior growth from Constellation in the upcoming release.

Analysts forecast it to report revenues of $952 million, which represents a year-over-year (YoY) increase of 16%. Its net income is estimated to grow 27% YoY to $161 million.

Constellation's higher earnings and upbeat management commentary could notably boost its stock. The recent market rally has brought it up significantly, but it is still trading almost 15% lower to its 52-week high.

At writing, it is trading at $1,350, which looks stretched in terms of valuation. However, aggressive investors can enter for further potential upside close to its recent high of $1,524.

Enbridge: A laggard in the market rally?

The energy infrastructure giant **Enbridge** (TSX:ENB)(NYSE:ENB) will report its first-quarter results on May 7. While its earnings are expected to be lower, analysts are not expecting a significant deep cut.

That could be mainly due to the low-risk earnings profile. Almost all of Enbridge's earnings come from fixed-fee contracts and thus are stable and predictable. Importantly, its indirect exposure to oil prices and unmatchable infrastructure makes it well placed in these challenging times.

Energy companies are expecting much lower earnings in the second quarter compared to Q1 2020. However, Enbridge's lower earnings could create downward pressure on its stock.

That could be a wonderful opportunity for investors to capitalize on the attractive valuation. If the broader stock market rally continues in May, one can expect a faster recovery in Enbridge as well.

The stock is already trading close to its multi-year lows. Its juicy dividend yield of 8% is another big positive for long-term investors. Even if its earnings are impacted, it will continue to pay regular dividends.

The bottom line is, even in case of the market rally, Enbridge's weaker-than-expected earnings could weigh on its stock next week. However, long-term investors should consider it as an opportunity given its strong growth prospects and sturdy dividend profile.

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