Top 3 Canadian Stock Picks for the Next Year

Description

There's deep value to be had in the TSX Index right now. If you're seeking the most significant margin of safety on your search for the most year-ahead upside, you may want to consider my top three deep-value picks. In no particular order, let's get right into the three names that I think are the best of the best in terms of value at this critical market crossroads.

Brookfield Asset Management

Brookfield Asset Management (TSX:BAM.A)(NYSE:BAM) is a terrific alternative asset manager that got caught offside amid the coronavirus pandemic. In a prior piece, I'd highlighted the out-of-favour firm as one of my top picks to play a post-pandemic rally.

"Although COVID-19 has knocked shares of BAM off its all-time highs, nothing has changed about the long-term fundamentals, which I think still shine through this haze of uncertainty." I wrote in a prior piece. "The company has ample liquidity and will likely rise out of this crisis in a position of strength. Moreover, the demand for alternative assets is likely to remain robust in this era of rock-bottom interest rates."

The company has around $77 billion worth of available liquidity. Don't act surprised if the firm, led by its brilliant managers, starts shopping around for bargains amid this crisis. Shares of BAM trade below two times book value and are a great way to prepare for an uncertain 2021.

Royal Bank of Canada

You can't go wrong with **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which is the gold standard as far as the Canadian banks are concerned. Now, the banks stand to be left holding the bag in a worsening of this crisis that drags various small- and medium-sized businesses underwater.

Given the wide range of outcomes, though, Royal Bank is the bank to bet on if you're looking for the perfect balance of risk-off and risk-on. The bank demonstrated its resilience in the first half, and as a result, shares are not as depressed as many of its peers in the Big Six.

Royal's capital markets business remains robust, and with the stock a correction (10%) away from its all-time highs, I'd look to back up the truck before we witness further signs of a recovery of the Canadian economy. Royal Bank stock, I believe, is worth a premium multiple. So, if you seek quality and relative resilience, I'd scoop up RY shares today while they still sport a 4.4% yield.

Manulife

Insurers got slammed back in February and March, and **Manulife** (TSX:MFC)(NYSE:MFC) was certainly not spared, as shares got cut in half before partially bouncing back. While insurers are terrible investments to own in economic downturns, you have to remember that such a horrific economic environment is already mostly baked into the share price at this juncture.

The stock has been an abysmal performer since falling off the cliff back in the 2007-08 stock market crash. But with shares trading at depths that make them close to the cheapest they've ever been, contrarians have to think about initiating a position in the name, as the discount to intrinsic value may have the potential to be profound if it turns out we're in for a V-shaped economic recovery.

Manulife trades at a near 20% discount to book value and is a wonderful pick for value-focused contrarians who seek upside going into 2021. The deep value to be had in the name is more than enough reason to own the stock, and the 5.8%-yielding dividend is the cherry on top of the sundae.

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. NYSE:MFC (Manulife Financial Corporation)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BN (Brookfield)
5. TSX:MFC (Manulife Financial Corporation)
6. TSX:RY (Royal Bank of Canada)

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