1 Soaring Canadian Stock That's Just Getting Started!

Description

Many beginner investors may be inclined to dismiss the handful of soaring Canadian stocks making new all-time highs as expensive.

Just because a stock has enjoyed a remarkable run doesn't mean it's overvalued or overdue for a painful correction.

Heck, many of today's momentum stocks still seem cheap given the magnitude of the economic recovery from COVID-19. Unlike 2020's biggest winners (growth and tech stocks), many of today's market leaders are backed by robust fundamentals. That makes them more likely to be "winners that'll keep on winning," rather than expensive stocks destined for a vicious pullback.

The 2021 class of soaring Canadian stocks could lead the way into year end

Like it or not, there's a new class of momentum stocks in this market. They're at the intersection between momentum and value. And many Canadian stocks at this intersection still look attractive, as the reflation and reopening trade shifts into high gear.

In this piece, we'll have a look at one soaring Canadian stock that is still an incredible value, even after soaring 50% since late October. Enter **TD Bank** (TSX:TD)(NYSE:TD), one of Canada's premier retail banking giants.

The second-largest Canadian bank wasn't spared from the pandemic-plagued 2020 that made loan growth hard to come by, as provisions for credit losses (PCLs) swelled. Nevertheless, TD Bank had a rock-solid capital ratio, making it a steady ship that sailed through a bout of rough waters that are now calming. Not only are the waters calmer, but the tides are moving in the banks' favour, with interest rate hikes likely to hit in late 2021 or early 2022 in response to the recent spike in inflation.

TD Bank's solid second quarter may be an appetizer before the real feast

Although TD's latest second-quarter results faced easy year-over-year comparisons, one must not discount the banks' potential to make up for lost time, as pronounced headwinds fade in favour of some pretty incredible tailwinds. For the second quarter, TD's loan growth was decent, but margins were a mixed bag. However, as the economy picks up traction and the Bank of Canada (BoC) looks to hike rates, I see room for significant margin expansion — and with that, a nice acceleration in TD's earnings growth.

TD stock looked expensive heading into the quarter, but post-earnings, shares are now trading at 11.3 times earnings, which is on the lower end for the premier Canadian bank. So, if you thought TD's second quarter was impressive, just wait until it can expand upon its margins.

Despite the impressive past-year run and the compressed dividend yield (now at 3.6%), I still think TD Bank stock is an incredible value at around $88.

TD Bank stock: Still too cheap to ignore

The price-to-earnings (P/E) ratio isn't lying. TD is cheap — perhaps too cheap, given the industry backdrop that could fuel a multi-year bull run for Canada's top banks. You could do well by picking up any Big Six Canadian bank stock at this juncture, but if I had to pick the best Canadian bank for your buck, I'd have to go with TD Bank. It's got the lowest P/E and arguably has the best earnings mix, given its less-volatile U.S. and retail banking exposure.

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