The 3 Best Canadian Stocks to Buy Amid the Market Rally

Description

Pandemic and inflation fears seem to have subsided in the last few weeks. Now, the economic recovery looks more dominant compared to the situation early this year, which will likely bode well for the markets. So, here are three top Canadian stocks to buy in the ongoing market rally for handsome long-term gains.

National Bank of Canada

Earnings of the Big Six Canadian banks indicate strong economic growth for 2021 and beyond. Among them all, **National Bank of Canada** (TSX:NA) stock looks superior on several fronts. It has rallied almost 55% in the last 12 months, outperforming its peers by a big margin. Importantly, the stock is trading at a discounted valuation against the industry average, despite its steep rally.

Moreover, National Bank of Canada could deliver handsome dividend growth in the next few quarters once the Canadian Banking regulator gives them the green signal. The supervisory body imposed bans on dividend increases and share buybacks last year amid the pandemic. However, National Bank has recorded striking earnings growth in the last couple of quarters, replenishing the pandemic dent.

To be precise, National Bank distributed 35% of its earnings as dividends in the last two quarters — way lower than its average payout ratio of 45%. So, investors can expect decent double-digit dividend growth probably sometime later this year.

All in all, National Bank looks attractive mainly because of its higher expected dividend growth and discounted valuation. Note that NA stock has outperformed peer bank stocks in all of the five-year, 10-year, and 20-year periods.

Canadian Natural Resources

If you have a distaste for energy stocks, it's time to change it and take a prudent approach. TSX energy stocks have been some of the top rallying spaces on the markets since last year. **Canadian Natural Resources**

(TSX:CNQ)(NYSE:CNQ) stock has returned 95% in the last 12 months, notably outperforming Canadian stocks at large.

Interestingly, the rally in energy stock seems far from over. Crude oil prices could continue their upward march due to recovering demand and unsuccessful talks between the oil-producing countries.

Even if oil prices fall or linger at current levels, Canadian Natural has the capacity to generate significant free cash for 2021. Its prudent cost management and balance sheet strength were visible last year when it maintained its dividend-growth streak.

CNQ stock currently yields 4.2%, which is higher than TSX stocks at large. Apart from dividends, CNQ could exhibit strong capital appreciation, driven by superior potential earnings growth and economic reopenings.

Air Canada

Air Canada (TSX:AC) stock was among the top gainers last decade, returning almost 30% compounded annually. Even though the pandemic and ensuing closures cast significant doubts about its recovery, it is well placed to benefit from the returning demand post-pandemic.

Air Canada holds nearly half of the domestic market share in Canadian aviation. It has some of the strongest balance sheets in the industry, which got a major boost after the Canadian government's bailout package.

We will likely see more routes adding to Air Canada's network and improving load factor in the next couple of quarters. Load factor is simply the capacity utilization, or the percentage of seats filled by the revenue-generating passengers. As a result, its recovering revenue and improving cash-burn rate should drive AC stock higher later this year.

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3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:NA (National Bank of Canada)

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