

Financial heavyweights filtered by safety, value investing metrics

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WHAT ARE WE LOOKING FOR?

My associate Allan Meyer and I take a closer look at Canadian financials using our investment philosophy focused on safety and value.

THE SCREEN

We started our search by filtering for Canadian exchange-listed names in the financial sector with a minimum market capitalization of \$5-billion. Market cap is a safety factor: Generally, larger companies are more liquid and stable. The list is sorted on this metric by largest to smallest.

Dividend yield is the annualized dividend divided by the recent share price. Dividends generally reflect safety and stability, and we love to get paid while we wait for capital appreciation.

Then we looked at the debt-to-equity ratio as our last safety

Select TSX-listed financial stocks

| COMPANY | TICKER | MKT. CAP. (\$ BIL.) | RECENT CLOSE (\$) | DIV. YLD. (%) | DEBT/EQUITY (%) | P/E | EARN. MOMENT. (%) | ROE (%) | 52W TTL. RTN. (%) |
|--------------------------------------|---------|---------------------|-------------------|---------------|-----------------|-------------|-------------------|-------------|-------------------|
| Royal Bank of Canada | RY-T | 152.1 | 105.42 | 3.9 | 310.8 | 11.2 | 1.5 | 17.7 | 10.1 |
| Toronto-Dominion Bank | TD-T | 142.2 | 77.74 | 3.8 | 179.1 | 10.8 | 2.0 | 16.3 | 6.6 |
| Bank of Nova Scotia | BNS-T | 87.0 | 71.20 | 4.9 | 164.0 | 9.5 | -0.1 | 13.9 | -0.3 |
| Bank of Montreal | BMO-T | 64.1 | 100.35 | 4.1 | 278.5 | 10.1 | 1.1 | 14.2 | 2.6 |
| Brookfield Asset Management | BAM-A-T | 63.7 | 64.00 | 1.3 | 404.6 | 21.4 | -6.4 | 12.9 | 21.4 |
| Manulife Financial Corp | MFC-T | 47.7 | 24.29 | 4.1 | 29.3 | 8.0 | 4.4 | 13.6 | 7.8 |
| Cdn. Imperial Bank of Commerce | CM-T | 46.4 | 104.24 | 5.4 | 147.2 | 8.4 | 0.2 | 16.4 | -4.6 |
| Sun Life Financial Inc. | SLF-T | 32.3 | 54.73 | 3.8 | 42.1 | 10.5 | -1.2 | 13.5 | 8.4 |
| Great-West Lifeco Inc. | GWO-T | 28.2 | 30.35 | 5.4 | 25.4 | 9.8 | -2.5 | 11.3 | -0.8 |
| National Bank of Canada | NA-T | 21.2 | 63.11 | 4.3 | 283.0 | 9.8 | 1.0 | 17.6 | 4.5 |
| Power Financial Corp. | PWF-T | 20.1 | 30.30 | 6.0 | 75.6 | 8.6 | -2.2 | 11.2 | 4.8 |
| Fairfax Financial Holdings Ltd. | FFH-T | 17.7 | 642.01 | 2.1 | 49.4 | 9.0 | 45.5 | 4.0 | -9.4 |
| Intact Financial Corp | IFC-T | 17.2 | 123.50 | 2.5 | 28.3 | 16.8 | -1.4 | 11.6 | 37.0 |
| Power Corporation of Canada | POW-T | 10.7 | 28.33 | 5.7 | 117.8 | 8.7 | -16.2 | 6.9 | 2.1 |
| IGM Financial Inc | IGM-T | 9.0 | 37.77 | 6.0 | 200.4 | 11.3 | -2.1 | 17.5 | 4.4 |
| Industrial Alliance Ins. & Financial | IAG-T | 5.7 | 53.89 | 3.3 | 15.8 | 8.8 | -0.7 | 11.4 | 10.0 |
| CI Financial Corp. | CIX-T | 5.2 | 21.80 | 3.3 | 105.2 | 8.8 | -0.4 | 36.2 | -1.3 |
| TMX Group Ltd. | X-T | 5.1 | 91.78 | 2.7 | 32.7 | 15.9 | -0.6 | 8.6 | 12.4 |
| Average | | | | 4.0 | 138.3 | 11.0 | 1.2 | 14.2 | 6.4 |
| Median | | | | 4.0 | 111.5 | 9.8 | -0.5 | 13.5 | 4.7 |

Source: Eikon and Wickham Investment Counsel Inc.

factor. It is the debt outstanding divided by shareholders' equity. A smaller number indicates lower leverage or debt levels.

The price-to-earnings ratio is the recent share price divided by the projected earnings per share. It is a valuation metric: The lower the number, the better the value.

Earnings momentum is the change in annualized earnings over the past quarter. A positive number implies earnings are growing while the opposite is true for a negative number. Positive earnings momentum over the long term should translate to share price appreciation and perhaps dividend hikes.

Return on equity reflects profitability – a higher number is better. It is calculated by dividing net income by shareholders' equity. We've also included the average and median numbers for most metrics to allow for better comparability and the 52-week total return as a performance measure.

WHAT WE FOUND

Manulife Financial Corp. scores well across the board for both safety and value. Fairfax Financial Holdings Ltd., Power Financial Corp. and Sun Life Financial Inc. look good on most measures. Fairfax boasts the best earnings momentum on the list while Power Financial has the highest yield.

The banks dominate the list in terms of size or market cap and tend to pay a good dividend, and have attractive valuation and profitability ratios, but also tend to have high debt levels.

It should be mentioned that owing to the nature of their business, banks are generally able to carry and service higher levels of debt.

Canadian Imperial Bank of Commerce looks to be the most attractive bank.

For investors who like the sector but prefer to diversify away individual security risk through an exchange-traded fund, iShares S&P/TSX Capped Financials Index ETF (XFN) is an option.

Investors should contact an investment professional or conduct further research before buying any of the securities listed here.