Now Is a Golden Opportunity to Buy Beaten-Up Royal Bank of Canada and Toronto-Dominion Bank

Description

Canadian bank stocks are looking pretty scary nowadays. Canada is likely in recession mainly because of low oil prices. The Bank of Canada may respond by cutting interest rates, which will eat into the banks' margins. Meanwhile, crises in Greece and China are threatening world markets.

Yet despite these issues, this could be one of your best opportunities to pick up some cheap bank shares. Below we take a look why.

Depressed stock prices

This year has not been a good one for Canadian bank shareholders. All of the Big Five have declined by at least 4%, with **Bank of Montreal** declining by more than 10%. As for the two largest banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are each down 6%.

Sailing through the storm

RBC and TD may have seen their share prices fall, but you wouldn't know it from their results. In the first and second quarters of this year, RBC's earnings per share grew by 15% and 14%, respectively. TD's grew by 6% and 5%.

As a result, the two banks trade at very low ratios compared with previous years. RBC trades at roughly 11.7 times earnings, and TD at 12.8. In 2014 those numbers would have been around 13 and 14, respectively. And in practically any other industry, you'd have to pay a lot more for companies with that kind of earnings growth.

Some of Canada's best dividends

Over the past year, the banks have also been steadily increasing their dividends. RBC's now stands at $0.77 per share per quarter, $0.10 higher than at the beginning of last year. Over that same time, TD's dividend has increased from $0.44 to $0.51.

Consequently, RBC and TD have yields of 4.0% and 3.9%, respectively. That's much higher than what you could have gotten in years past.

It's also much better than what you can get in other industries. Put simply, there's no way you can get a 4% yield from a dividend growing so quickly in any other industry in Canada. Better yet, these dividends are very reliable—none of the big banks have cut their payouts since World War II.

Which bank should you own?

RBC and TD are both great options, and have the best track record over the past 10 years by far. So, there's really no harm in owning both of them.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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