Are the Big Banks a Good Buy Before Earnings?

Description

The big banks are set to release their quarterly earnings results starting next week. I will focus on the Big Three banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) in this article.

Since outperforming by delivering total returns of as much as 50% last year, their shares have experienced a meaningful pullback from their all-time highs. So, it's a good time to give the banks another look.

Should you buy now or after earnings? First, let's take a look at where they're now.

The shares today

At about $91.40, Royal Bank trades at a multiple of about 12.8. The shares are reasonably valued compared to the long-term normal multiple of 12.5. Currently, the shares yield 3.8%.

Projecting Royal Bank's quarterly dividend per share (DPS) of $0.87, the leading bank offers an annual DPS of $3.48 with a payout ratio of about 48%.

At about $62.30, TD Bank trades at a multiple of about 12.2. The shares are reasonably valued compared to the long-term normal multiple of 12.4. Currently, the shares yield almost 3.9%.

Projecting TD Bank's quarterly DPS of $0.60, the quality bank offers an annual DPS of $2.40 with a payout ratio of about 46%.

At about $74.20, Bank of Nova Scotia trades at a multiple of about 11.9.

The shares are reasonably valued compared to the long-term normal multiple of 12.4. Currently, the shares yield 4.1%.

Projecting Bank of Nova Scotia's quarterly DPS of $0.76, Canada's most international bank offers an annual DPS of $3.04 with a payout ratio of about 48%.

Dividend growth

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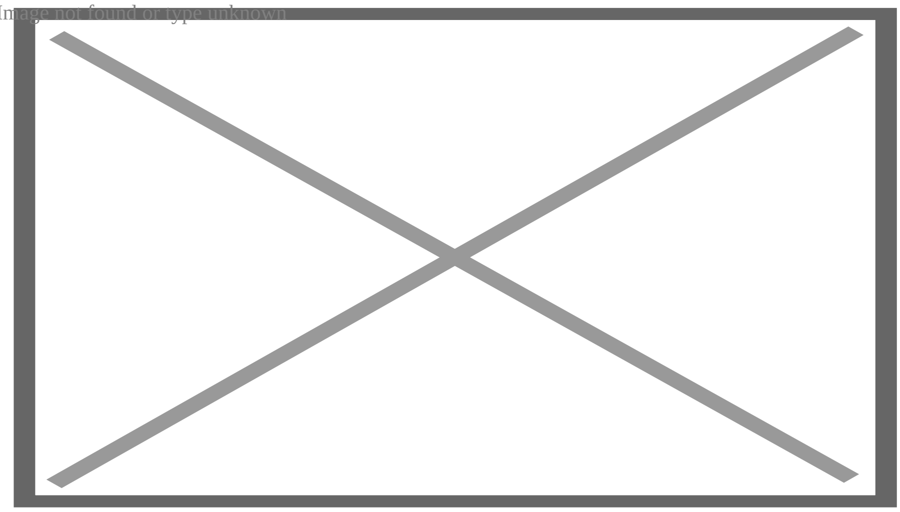

In the last five years, Royal Bank has increased its DPS at a compound annual growth rate (CAGR) of 8.8%. Its DPS is 7.4% higher than it was a year ago.

In the same period, TD Bank has hiked its DPS at a CAGR of 10.8%. Its DPS is 9% higher it was a year ago.

Then there's Bank of Nova Scotia, which has hiked its DPS at a CAGR of 6.7%. Its DPS is 5.6% higher it was a year ago.

The banks have slowed down their dividend growth recently. How much they increase their dividends in the future will depend on their earnings growth because their payout ratios are similar at about 48%.

Nineteen analysts estimate Royal Bank will grow its earnings per share (EPS) at a CAGR of 4.5-6.3% for the next three to five years. So, the bank can grow its DPS by at least 5% per year with some expansion in the payout ratio if needed.

Eighteen analysts forecast TD Bank will grow its EPS at a CAGR of 7.5-9.4% for the next three to five years. So, the bank can grow its DPS by at least 8% per year.

Nineteen analysts forecast Bank of Nova Scotia will grow its EPS at a CAGR of 7.4-9% for the next three to five years. So, the bank can grow its DPS by about 8% per year.

Should you buy before or after the earnings results?

Royal Bank and TD Bank are scheduled to report their latest quarterly earnings results on the 25th, and Bank of Nova Scotia will release its results on the 30th.

No one knows which way shares will go after the earnings reports because pullbacks can happen even if a company reports a good quarter but is negative about the outlook.

If you want to buy shares in the quality banks, consider buying some now and more after earnings for an average-cost basis.

Interested investors who are looking for a more attractive entry point can start to consider Royal Bank at a minimum yield of 4%, or when it falls to $87 per share or lower. They can consider TD Bank at a minimum yield of 4%, or when it falls to $60 per share or lower. Finally, they can consider Bank of Nova Scotia at a minimum yield of 4.2%, or when it falls to $72.38 per share or lower.

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Date
2025/08/14
Date Created
2017/05/18
Author
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