A Critical Glance at 3 Big Bank Stocks on the TSX Index

Description

With some positive breakthroughs in the news last week — and a whole lot of frankly worrying headlines as well, fear continues to nibble at the bullish mood that for reasons unknown persists in the Canadian stock market. Defensive stocks remain a favourite play, while tech and energy stocks continue to buoy and drag on the markets by turns.

Meanwhile, sensible investors are quite rightly getting deeper into defensive financials. Here are three of the biggest of the Big Five. Are they a buy today?

Bank of Montreal (TSX:BMO)(NYSE:BMO)

A firm favourite of Canadian investors, BMO is looking like fair value today with a P/E of 14.5 times earnings. Its PEG is what you would expect with moderate growth (for a Canadian bank at present) at 1.1 times growth. Incidentally, BMO's expected one-to-three year annual growth in earnings is 13.1%, so that PEG is exactly right.

BMO is trading with a P/B ratio of 1.7 times book, making for middling value. It's the best value of the three banks listed here. It pays a 3.69% dividend yield, making it a dull but sturdy pick for TFSA and RRSP investors with a low appetite for risk.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS)

Discounted by 9% compared to its future cash flow value, Bank of Nova Scotia is actually valued very similarly to BMO today. Let's look at those multiples. Bank of Nova Scotia has a so-so P/E of 11.1 times earnings and a high PEG of 2.9 times growth, which indicates that this stock is overvalued in terms of growth.

Considering that this stock is looking at a negligible 3.8% expected annual growth in earnings, that PEG really does signal poor value. A P/B ratio of 1.6 times book does little to mitigate this signal. However, dividend investors may wish to look at the stability and clean balance sheet of this stock, plus its decent yield of 4.28%.

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

The poorest value of our three stocks today, TD Bank has a P/E of 13.5 times earnings, which is higher than the Canadian banking industry average. Its PEG of 1.8 times growth is indicative of fair pricing for its low 7.5% expected annual growth in earnings. The real bad news, however, is that TD Bank is trading at twice its book price today.

For a mediocre dividend yield of 3.49%, income investors might want to wonder what the fuss is about. However, what you get with this stock is stability, and those dividends will add up over time if you buy dependable old TD Bank, stick it in your savings account and forget about it.

The bottom line

For three of the most talked-up stocks on the TSX, the banks listed here are only so-so on value. They're not overheated though, indicating that equal amounts of fear and greed seem to be keeping all three stocks around their actual value. The exception might be TD Bank, which is trading at twice its book price. It also pays the lowest dividends of the three stocks today.

However, TD Bank has the greatest allowance for bad loans of the three, so if you're worried about a possible recession, then this might be your boy. All three bank stocks listed here have strong balance sheets and are well-positioned to survive an economic downturn, though. In short, if you're looking for defensive stocks on the TSX index then these three stocks come highly recommended.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TD (The Toronto-Dominion Bank)
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