Canadian Bank Stocks Are Severely Undervalued, Especially These 2 Gifts

Description

Amidst the recent wreckage, you should opt to buy quality blue chips on the dip rather than attempting to catch falling knife tech stocks, many of which may continue to bleed as the growth-to-value rotation continues.

When it comes to quality, you'd be hard-pressed to find anything better than the Canadian banks, all of which appear to be trading at considerable discounts to their intrinsic value after getting pummelled in the tech-led October sell-off. Banks are permanent holdings, and whenever you get a rare opportunity from Mr. Market to grab shares at a discount, you should pounce at the opportunity.

While bank stocks may suffer hefty losses in the event of a recession, they're typically the first ones out of the gate when the next phase of the market cycle kicks in. Moreover, the above-average dividend yields offered by the banks will allow investors to continue to be rewarded for their patience as they wait for the markets to reset.

At the time of writing, all the Big Five Canadian bank stocks look ridiculously cheap and worthy of your investment dollars. But if you're looking for the best bargain, I've narrowed the list down to two names: **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Scotiabank and CIBC both possess attractive dividend yields that are flirting with the 5% mark. Their stocks are down 16%, and 7%, respectively from all-time highs, and as the turmoil continues, I wouldn't wait any longer as the probability of a 10% upside correction could be in the cards for both names as tensions settle over the tech-driven sell-off that I believe will be quickly forgotten as we head into the next round of bank earnings.

Furthermore, the Bank of Canada recently hiked rates to 1.75%. If I had to guess, they're going to follow in the footsteps of Jay Powell and the Fed as Canada plays catch-up in spite of the debt struggles of many Canadians. Higher rates are a tailwind for the banks, as they'll be able to command greater net interest margins (NIMs). Moreover, both Scotiabank and CIBC are priced well below where they should be given each of their unique circumstances.

Scotiabank has hit some rough waters of late with some weakness in its capital markets business, and the potential implications of an emerging market slowdown doesn't bode well for the company's foreign segment.

CIBC, on the other hand, is firing on all cylinders with its robust, growing U.S. segment in place, and appears to be in much better shape than it was prior to the collapse of 2008. Still, the stock trades at a ridiculously cheap 8.8 forward P/E, a 1.6 P/B, and a 3.9 P/CF, all of which are substantially lower than the company's five-year historical average multiples of 10.8, 2.0, and 6.8, respectively.

Foolish takeaway

All the banks are gifts at these levels. If you're looking to get the best bank for your buck, you may want to consider either Scotiabank or CIBC here while their yields hover around the 5% mark.

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