2 All-Weather Banking Stocks for the Cautious Dividend Investor

Description

There are safe stocks, and then there are all-weather, defensive, dividend-paying safe stocks. The following classically "safe" Canadian financial stocks represent the best of the Bay Street bankers, and as such are two of the most defensive dividend payers on the TSX index.

TD Bank (TSX:TD)(NYSE:TD)

Although Canadian investors bearish on the U.S. economy might balk at the exposure some of the Big Six have to the American financial market, the fact is that defensive stocks don't come much sturdier than TD Bank. A no-brainer when it comes to stocks to buy for an RRSP or TFSA, TD Bank can form the backbone of a strong dividend portfolio when it's paired with blue-chip utilities and other beefy TSX stocks.

A one-year past earnings growth of 10.6% is more or less in line with the banking average, while a five-year average growth of 10.1% shows that TD Bank is a steady-rolling stock when it comes to its track record. In terms of a balance sheet, TD Bank ticks all the usual boxes of a Big Six banker but with the added advantage of a sufficient allowance for bad loans — something few other competing banks can boast.

Market ratios suggest a slight overvaluation for TD Bank stock at the moment. This can be seen in a P/E of 12.2 times earnings versus the banking average of 10.5; likewise, its P/B of 1.8 times book is a touch higher than both the market and the banking average. However, a resulting dividend yield of 4.01% is sizable enough.

In terms of quality, there are a few indicators that this is one of the less-risky stocks to invest in when it comes to financials on the TSX index: a ROE of 14% is sufficient, if not overwhelmingly high, while an expected 9.6% earnings growth is good to see in this space. Meanwhile, market-average tenures for both TD Bank's management team and its board of directors make for a sound pick in terms of how the ship is being run.

Having shed 1.69% in the last five days, and with a beta of 0.91 relative to the market indicative of low volatility, TD Bank is a low-momentum investment tailored towards the long-range dividend portfolio; its 36% discount compared to its future cash flow value backs up the stolid stats and rounds out a fairly attractive valuation.

Scotiabank (TSX:BNS)(NYSE:BNS)

Scotiabank's data, including its value and outlook, as well as a juicy yield, make this big competitor's stock a sound and secure alternative — or complement, should an investor be feeling especially bullish on Canadian banking stocks — to TD Bank. In brief, its market ratios look good from a P/E of 10.6 times earnings to a P/B of 1.4, while that dividend yield of 4.89% is just right for a TFSA or RRSP.

Scotiabank's five-year beta of 1.16% relative to the market is somewhat of a surprise for data-focused investors labouring under the assumption that Canada's big bankers are uniformly sluggish in terms of share price volatility. A low allowance for bad loans and mediocre five-year average earnings growth of 5.3% are additionally a little underwhelming.

The bottom line

In short, both TD Bank and Scotiabank's stocks look like solid buys for assured passive income on the TSX index. If an investor were to choose just one, it would probably have to be TD Bank based on track record and its ability to absorb bad loans. Also, while Scotiabank's yield is better, its past-year ROE of 12% could be higher and its 6.7% expected growth in earnings is a touch lower than that of TD Bank.

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Date
2025/08/22
Date Created
2019/05/15
Author
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