3 Bank Stocks Worth Buying in 2019

Description

Canadian banks have put their U.S. peers to shame over the past few decades.

While many U.S. bank stocks fell 50% or more during the credit crisis of 2008 and 2009—with several even going bankrupt—Canadian banks experienced hardly any long-term impact. In fact, nearly all kept their impressive dividends intact while avoiding massive asset write-downs.

Today, Canadian bank stocks continue to show impressive stability with market-leading dividends. As we enter the second half of 2019, here are three companies worthy of your attention.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

Trading at 1.4 times book value at writing, CIBC is not only trading close to a five-year low, but is also priced cheaper than many of its peers. Its dividend yield, meanwhile, is near the top of its peer group.

"With a dividend yield of 5%, this bank has the highest yield among the Big Five banks," writes Fool contributor Stephanie Bedard.

The low valuation could be a great chance to scoop up a legitimate dividend dynasty on the cheap.

"CIBC has been increasing its dividend for eight consecutive years," Bedard added. "In the last five years only, the dividend has been increased at an average annual rate of 7%."

CIBC stock could be a bit more volatile than its competitors during times of turmoil, as about one-third of its revenues come from either U.S. operations or capital markets activities, both of which faced severe headwinds during the last financial crisis.

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

Similar to CIBC, Bank of Nova Scotia trades close to its five-year low valuation, at roughly 1.4 times book value. With a dividend yield of 4.9%, however, its income potential is close to the top of its industry.

Despite a 20% drop since January, Canada’s central bank, the Bank of Canada, remains optimistic about the country’s ability to weather economic turmoil.

“Overall, the financial system remains resilient, and confidence among market participants continues to be high,” it noted in a recent report.

If troubles arise, Bank of Nova Scotia’s management team is confident that recent measures will make the bank resilient to a severe nationwide recession, a large house price correction, or a sharp repricing of risk in financial markets.

“A recent stress test conducted by our staff considers these risks and finds that if they materialized, large Canadian banks would be well positioned to manage them,” the Bank of Canada concluded.

From September 2008 to September 2009, Bank of Nova Scotia shares were roughly flat, despite nearly all of its U.S. peers trading heavily in the red. When this bank says that it’s prepared for disaster, it has a proven history to back up those claims.

National Bank of Canada (TSX:NA)

Trading at 1.8 times book value, National Bank of Canada is trading in-line with its five-year average valuation. Still, that’s pricier than the other banks on this list. Plus, National Bank’s dividend yield is just 4.1%.

Why does this bank stock trade at a premium despite its relatively low dividend?

With a market cap of just $21 billion, National Bank is significantly smaller than both Bank of Nova Scotia ($87 billion) and CIBC ($47 billion). This smaller size has allowed it to grow more quickly than its competitors.

Over the last three years, revenues have grown by 11% per year, with earnings growing by 18% annually. Both of those rates are significantly higher than CIBC and BNS.

Unsurprisingly, National Bank is using more funds to capitalize on these growth opportunities; its payout ratio is just 42%. CIBC comes in at 49% while BNS is closer to 48%. So, while the dividend appears lower, it’s because this bank is using the excess capital to reinvest in the business at attractive rates.

National Bank is often overlooked, but it should be at the top of your watch list.

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