Are Canada's Top Banking Stocks a Buy Heading Into 2020?

Description

Despite the volatility, it has thus far been a great year for the TSX Index. Year to date, the S&P/TSX Composite Index is up 16.2% and is on pace for one of its best years of the past decade. Thus far, it is a far cry from the disastrous end of year we had in 2018, which led the TSX having its worst year since the financial crisis.

On the flip side, Canada's big banks have underperformed in 2019. Although they aren't performing badly, not a single one of the Big Five have topped the TSX's performance. As a group, they have averaged an 11.76% return.

Royal Bank of Canada has been the best performing with returns of 14.7%, while **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is bringing up the rear with a 9.9% return. All the others fall somewhere in the middle.

The group is expected to release fourth-quarter earnings in late November/early December. As is typical, the markets look to the banks to gain insights on the pace of economic activity. At current valuations, all of the Big Five look like excellent value plays. Four of the Big Five, the exception being Royal Bank, are trading at pretty steep discounts to historical valuations.

When this happens, it is time to back up the truck. Over the past 25 years, when the banks have had downturns, they have always rebounded to trade in line with historical averages.

At the moment, the two banks that look most attractive are **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and the Bank of Montreal.

Why TD Bank? Over the past five- and 10-year periods, TD has been the best performing of the biggest financial institutions in Canada. Although past performance is not a predictor of future success, Toronto-Dominion is poised to continue its dominance.

At 7.50%, it has the highest expected average annual growth rate over the next five years. It also has the highest dividend-growth rate. Once again, investors can expect this trend to continue, as it has one of the lowest payout ratios.

TD Bank is currently trading at a 12.3% discount to its historical average and is one of the top banks to hold heading into 2020.

With respect to Bank of Montreal, a reliable investment strategy has been to buy the worst-performing banks. Over the past 20 years, research has shown that, on average, the worst performer has outperformed its peers in the year that followed.

As the worst performer (thus far), Bank of Montreal is worthy of your attention. It has the lowest price to book (1.37), and like TD Bank, it is trading at a 12% discount to historical averages. It hasn't been this cheap since late 2016 and the financial crisis before that.

At just shy of 5%, it also has the second-highest expected growth rate. It is also worth noting that next month, the company is expected to raise dividends for the second time this year.

Last quarter, it missed earnings for the second consecutive quarter. It hasn't missed on the bottom line twice in the same year in over five years. It is unlikely that the bank misses again. Now is the time to grab the Bank of Montreal.

CATEGORY

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1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
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