3 Canadian Bank Stocks to Watch in 2020

Description

2019 was not a great year for Canadian bank stocks.

Although lifted by the impressive gains in the broader stock market, they under-performed the **TSX** by a significant margin.

The weakness in Canadian banks in 2019 was driven by a number of factors.

First, declining consumer credit quality led to rising PCLs, which ate into earnings.

Second, a housing slump earlier in the year shook investor confidence.

Finally, on ongoing and very public short bet on Canadian banks by Steve Eisman and others led to a general atmosphere of pessimism toward Canadian banks.

As we head into 2020, many of the factors that led to weakness in banks in 2019 are still present–most notably rising PCLs. On the other hand, the big banks remain fairly cheap, and most are still seeing steady if tepid earnings growth.

If you're a Canadian investor who's considering taking a position in one or several of the country's banks, here are three to keep an eye on.

The Toronto-Dominion Bank

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) had an "so-so" run in 2019. With its earnings up 3% for the full year, it didn't see the kind of growth that it did in past years. The bank's U.S. growth notably slowed in its most recent quarter, while its commercial banking division faced several losing quarters.

The most interesting development to watch regarding TD in 2020 will be how its **TD Ameritrade** sale plays out.

Last year, **Charles Schwab** agreed to buy out TD Ameritrade in an all-stock deal.

TD previously held about 42% of AMTD; now it will hold 13.4% of SCHW instead. This will probably be a good thing in the long run, since TD Ameritrade was caught with its pants down on no-fee trading, which Schwab is much better equipped to handle. However, it will be interesting to see how TD's U.S. operations fare without Ameritrade fuelling growth.

Royal Bank of Canada

The **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is Canada's largest bank by market cap and one of the most domestic-focused of the Big Six.

In 2020, this bank will be worth watching as an indicator of the broader banking industry.

Being disproportionately focused on Canada, RY is more exposed to the trends that have led investors like Eisman to bet against several Big Six banks.

If these trends take Canadian banks into the red, it's likely that Royal Bank will be hit first, as it doesn't have a foreign presence to balance out domestic weakness.

VersaBank

VersaBank (TSX:VB) is a small Canadian bank with a notable value proposition:

Branch-free banking.

The lack of branches saves money, allowing the bank to offer extremely high rates on some of its accounts, including a 1.2% rate on its Sunrise Savings Account.

Branchless banking isn't a totally new concept, but VersaBank is one of the first Canadian banks to go all-in on it.

VersaBank is growing faster than most Canadian banks, having increased net income by 5% in its most recent quarter and 12% in its most recent fiscal year.

The stock's dividend yield of 1.3% is among the lowest of all Canadian banks, but still provides a nice boost to whatever capital gains investors realize on the stock.

Owing to its novel business model and fast growth, VersaBank will be one to watch in the year ahead.

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