TFSA Users: My Top 3 Canadian Bank Stocks

Description

The cumulative contribution room for a Tax-Free Savings Account (TFSA) has climbed to $69,500 in 2020. Of course, this applies to investors who were eligible for contributions since the inception of the TFSA in 2009. Last year, I'd discussed strategies investors can consider when it comes to building their TFSA portfolios.

Bank stocks are a terrific target for investors who are pursuing a balanced strategy. These powerhouses have delivered solid capital growth and income. Today, I want to look at my top three Canadian bank stocks to kick off the new decade.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is the fourth largest of the Big Six banks. Shares of BMO have climbed 6.4% over the past three months as of close on January 13. The bank released its fourth-quarter and full-year results for 2019 in early December.

Adjusted net income rose 4% from 2018 to $6.25 billion, and adjusted earnings per share increased 5% to $9.43. Revenue climbed 6% to $22.7 billion. In the fourth quarter, BMO reported adjusted profit growth in its Canadian Personal and Commercial Banking, U.S. Personal and Commercial Banking, and Wealth Management segments.

Shares of BMO last had a price-to-earnings (P/E) ratio of 11.8 and a price-to-book (P/B) value of 1.4. It is trading near a 52-week high. The stock is one of the more expensive among its peers, but I still like its value right now. BMO last hiked its quarterly dividend to $1.06 per share, which represents a solid 4.1% yield.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is the largest financial institution in Canada, and the largest stock on the TSX by market cap. Shares of Royal Bank have dropped marginally over the past three months.

The bank suffered from a disappointing fourth-quarter earnings report in December.

In Q4 2019, Royal Bank reported net income of $3.21 billion, or $2.18 per diluted share, which was down from $3.25 billion, or $2.20 per diluted share, in the prior year. Its Capital Markets and Insurance segments were a drag on earnings in the fourth quarter. However, its Personal and Commercial Banking segment saw net income rise 5% year over year on the back of positive momentum in the housing sector. Royal Bank has emerged as a leader as Canada housing has rebounded over the past year.

The stock last had a P/E ratio of 12 and a P/B value of 1.9. It is trading at a premium right now, as the stock is close to a 52-week high. Royal Bank last paid out a quarterly dividend of $1.05 per share, representing a 4% yield.

Scotiabank

Scotiabank (TSX:BNS)(NYSE:BNS) is a great option for investors who are looking for some international exposure. Its stock has dropped 2.6% over the past three months. This came after it mostly met analyst expectations in the fourth quarter — posting a $2.31 billion profit.

The bank is forecasting a strong 2020, and its analysts do not anticipate that a recession will hit in the near term. Scotiabank projects that its domestic operations will contribute 30-40% of all bank earnings, while its International Banking segment is expected to bring in 20-30%. Canada's housing market bounced back nicely in 2019, which fuelled loan growth at Scotia and some of its peers. Latin America, where Scotiabank has established a strong foothold, is also expected to post improved economic activity in 2020.

Shares of Scotiabank had a P/E ratio of 10.8 and a P/B value of 1.3 at the time of this writing. Better yet, it offers a quarterly dividend of $0.90 per share, which represents an attractive 4.9% yield. Of the three I have covered today, Scotiabank looks like the best value pick right now.

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