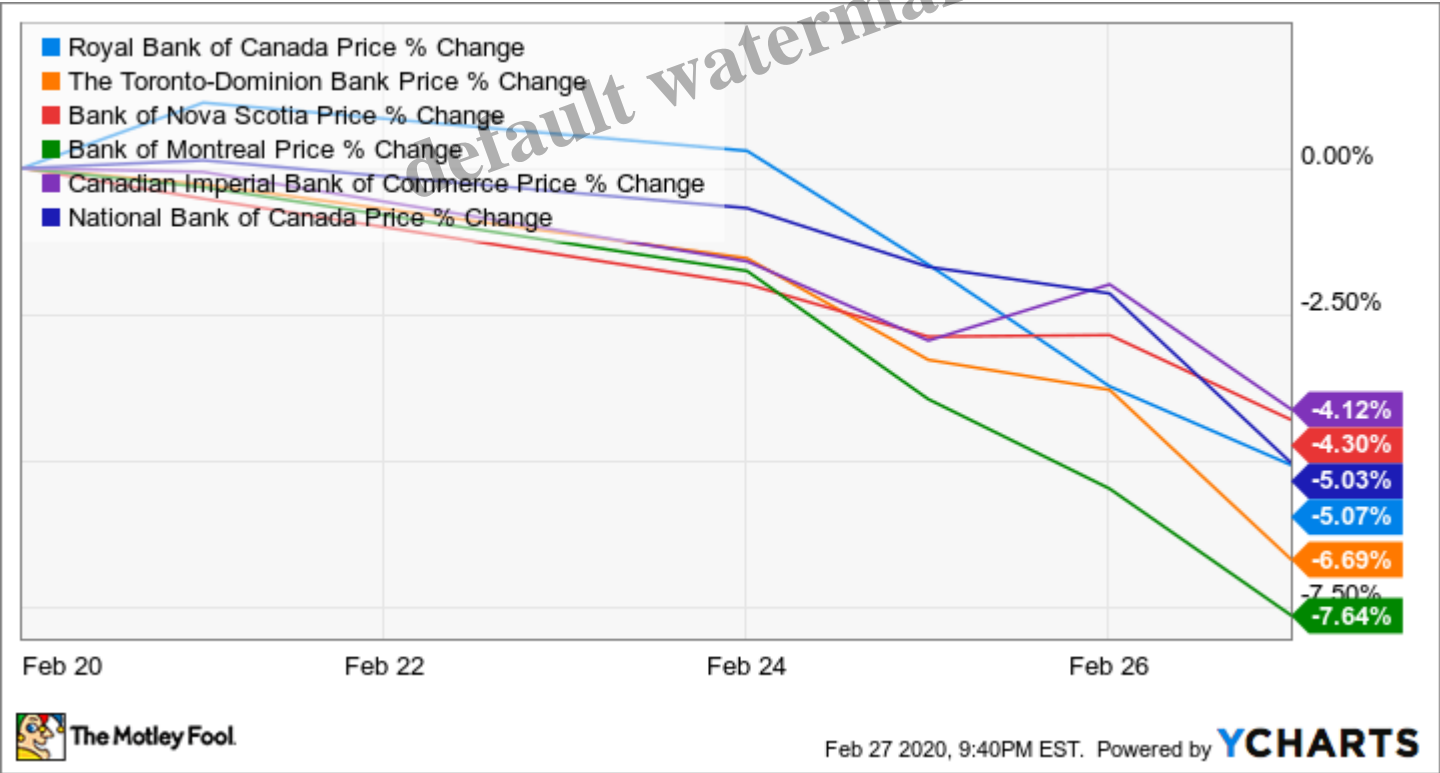




The Best Canadian Bank Stocks to Buy in 2020

Description

The Big Six Canadian bank stocks have reported their fiscal Q1 2020 results in the last week or so, with the stocks dipping by 4-8%, as shown in the graph below.



Data by YCharts.

An industry-wide dip in the banking sector only means one thing: the market lacks confidence about the current economic environment and expects slower economic growth, which would impact bank earnings.

Big Canadian banks' recent results

Reviewing the recent metrics of the big Canadian banks gives hints on which may be the best ones to buy for 2020 and beyond.

National Bank of Canada and **Royal Bank of Canada** experienced the strongest year-over-year adjusted earnings-per-share growth in fiscal Q1 2020. Their recent dividend increases were also above average. Therefore, they trade at higher valuations than the group.

Bank	Price Per Share	Yield ¹	Payout Ratio ²	EPS Growth ³	Dividend Growth ⁴	Valuation
Royal Bank	\$103	4.2%	46%	11.4%	7.1%	10% undervalued
TD Bank	\$71	4.5%	46%	5.7%	9.5%	18% undervalued
Scotiabank	\$71	5%	50%	4.6%	5.3%	16% undervalued
BMO	\$94	4.5%	43%	4%	6.6%	16% undervalued
CIBC	\$105	5.6%	48%	7.6%	5.3%	16% undervalued
National Bank	\$71	4%	42%	13.3%	9.4%	Fair

¹ Estimated 2020 payout ratio based on most recent quarterly dividend on an annualized basis

² Adjusted earnings per share growth in fiscal Q1 2020 against fiscal Q1 2019

³ Trailing 12-month dividend per share over previous trailing 12 months

⁴ Valuation compared to the bank's long-term normalized valuation

Coronavirus impact on the economy

One key factor that global economic growth is expected to be slower this year is coronavirus COVID-19.

The impacts of the novel coronavirus COVID-19 health emergency are far and wide, spreading across humanity and creating a chain reaction that travels across sectors.

Indeed, low energy prices have been further pressured lately triggered by expected lower global demand. Many companies will be reporting lower earnings in 2020.

Last week, I correctly pointed out that [Air Canada stock would fall further](#). So far, it has fallen more than 30% from its 2020 high of \$52 per share, though it had a relief rally on Thursday.

On Monday, I discussed loser stocks **Teck Resources** and **CCL Industries**, which have fallen meaningfully by 39% and 20%, respectively, year to date but can deliver [huge returns](#) in the future. All three stocks are from markedly different industries, but the coronavirus outbreak has had huge impacts on them directly or indirectly.

There is good news, though. In late January, **Starbucks** closed more than half of its 4,300 outlets in

China to protect its employees and help contain the COVID-19 outbreak. And it has just reopened most of them as the number of new cases in China has slowed, which is potentially a sign of early recovery in the region.

The best Canadian bank stocks to buy

There's probably room in a diversified portfolio for more than one bank stock. Deciding on which Canadian bank stock to buy right now depends on what you're looking for.

If you seek the cream of the crop, you should consider Royal Bank or National Bank, which have had stellar earnings recently and are undeniably the quality bank stocks to own. Importantly, both are trading at good valuations with Royal Bank being a better deal.

If you seek greater value and higher income, TD Bank and CIBC stock should be at the top of your list.

That said, if you already hold other big bank stocks, there's no need to panic and sell them in the correction, as the bank stocks generally outperform the market in income and, in the long run, total returns as well.

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Date

2025/07/30

Date Created

2020/02/28

Author

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