



Updated: Ranking Canada's Best Bank Stocks for the Rest of 2020

Description

A great deal has changed since December, when I said **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) was my [top pick](#) in the Canadian banking sector.

I liked Scotiabank shares for a number of reasons. First, I'm a big fan of the bank's Latin American exposure, with assets in faster-growing places like Mexico, Peru, Chile, and Colombia. These nations should offer a nice double whammy of growth as both populations increase and as the average person gets wealthier, which necessitates an increased need for banking services.

I was also a fan of the stock's valuation. At the time, shares traded for a hair under 10 times forward earnings expectations, among the cheapest in the sector. Scotiabank's dividend yield — which was just under 5% at the time — was also among the highest in the sector, another indication that the stock is undervalued.

The bank also has terrific Canadian operations, boasting the third-largest market share in the sector. Areas of strength include the mortgage market — particularly in the mortgage broker market, where Scotiabank leads all competitors — and wealth management.

While I'm still bullish on Scotiabank over the long-term, two other Canadian bank stocks have replaced it on the top of my must-buy banking stock list. Let's take a closer look at see why they've vaulted to the top.

Royal Bank

This latest market sell-off has been an interesting one for the banking sector. It seems like the better quality names have declined more than the lower quality ones.

Royal Bank ([TSX:RY](#))([NYSE:RY](#)), for instance, has been a particularly poor performer. The stock has declined close to 10% over the last month despite coming out with some pretty good earnings — results that included a dividend raise.

Yes, I'd agree that things are looking a little more uncertain for Canada's largest bank — at least compared to a few weeks ago. We still don't know how bad the economic fallout will be from the Coronavirus. And lower interest rates will decrease revenue from variable rate mortgages, as well as potentially leading to lower net interest margins if a rate war breaks out.

This sell-off means Royal Bank shares are trading for the lowest valuation we've seen in years. Shares are currently trading for a tiny bit more than 10 times forward earnings expectations. The company's dividend has leapt up to 4.3%; I haven't seen the bank's dividend yield that high for years.

I can easily imagine a scenario where Royal Bank shares have delivered a total return of between 15-20% a year from now.

TD Bank

As much as I like Royal Bank shares here, it pales in comparison to how bullish I am on **TD Bank** ([TSX:TD](#))([NYSE:TD](#)). I simply can't believe the stock has become so cheap.

First, let's talk about the quality of TD's operations. Royal Bank is the leader in most banking categories in Canada, but TD isn't far behind. The company continues to post impressive results from its [Canadian banking](#) operations, including strong mortgage growth and fine numbers from its wealth management division.

The company's credit card division is doing well too, and its insurance operations have quietly grown to become one of Canada's largest property and casualty insurers.

One reason TD's shares have been weaker lately is because of slightly disappointing results from its U.S. subsidiary. Earnings fell by 8% on a year-over-year basis as commission free trades impacted the bottom line. Even after accounting for this, earnings were only up 2% compared to the same quarter last year.

A month ago, TD shares were above \$75 each. As I type this, the stock has declined all the way to the \$67 range — a decline of more than 10%. The stock also trades at under 10 times expected 2020 earnings — which should be right around \$7 per share — and the dividend yield is all the way up to 4.7%. I can't remember the last time TD's yield was so high.

The bottom line

While I still like Bank of Nova Scotia as a long-term hold, I can't rank it as my top pick in the Canadian banking sector any longer. Both Royal Bank and TD Bank are superior companies that are now trading at a substantial discount. Buy both today and I doubt you'll be disappointed.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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Date

2025/07/02

Date Created

2020/03/08

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