Canadian Bank Stocks Are On Sale: Which Dividend Stock is the Safest?

Description

In late February, I wrote a piece on the best Canadian bank stocks to buy in 2020. In the article, I concluded that **RY** and **National Bank** were the best Canadian bank stocks to invest in.

Let's see if that still holds in this stock market correction that also pulled down the Canadian bank stocks.

What triggered the market correction?

In the near to medium term, there was already lower demand for energy due to the COVID-19 coronavirus outbreak that has spread to 115 countries.

The oil price war between Saudi Arabia and Russia triggered the WTI oil price to be slashed in half in merely two months.

The U.S. and Canadian central banks' interest rate cuts in early March did little, if anything, to lift the market sentiment. In fact, rate cuts are negative for banks.

Canadian banks are on sale!

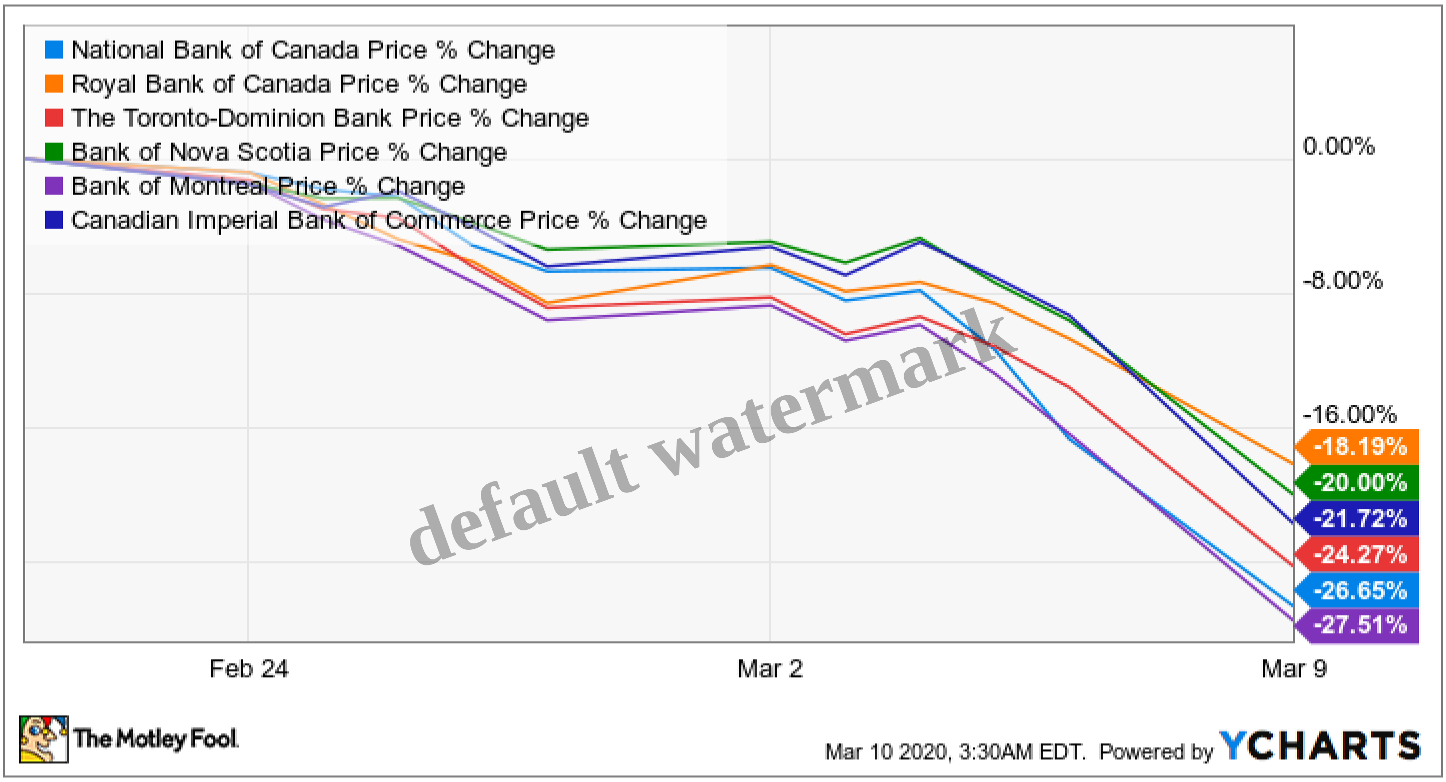
Even big Canadian banks, which are generally viewed as safe dividend stocks, sold off. The market is worried about higher loan losses that may be triggered by the repercussions of potential oil and gas company bankruptcies. The banks are now trading at the cheapest valuations we've seen for a long time!

At writing, the WTI oil price is about US$33 per barrel. This price is unsustainable for most Canadian oil and gas companies. Aside from how the oil price war will develop and other surprise events that may be thrown our way, we should get at least a short-term bounce from the oversold stocks.

Keep in mind that the banks account for downside scenarios, including low oil prices, as a part of their regular review for expected credit losses. Knowing this should give some reassurance for bank stock shareholders. For example, for fiscal 2020, Royal Bank and National Bank, respectively, use a WTI price of US$25 and US$39 for oil's downside case.

Which is the safest bank stock to invest in?

In today's risk-off environment, the market gave us a hint on which is the safest bank to invest in — essentially, the ones that have fallen the least. Based on this criterion, RY stock wins, followed by **BNS** stock as the runners-up.



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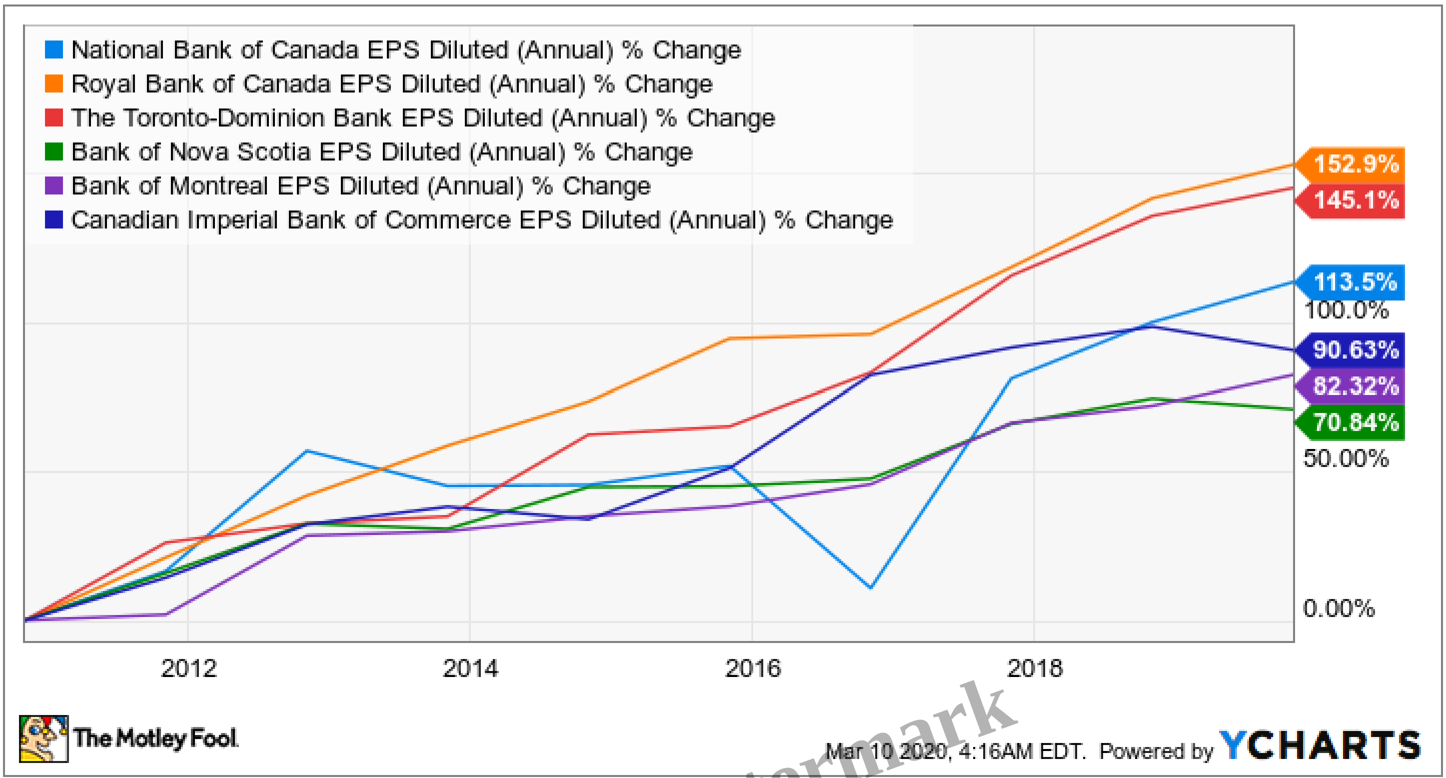
However, we should also account for the valuations of the dividend stocks before the selloff. For example, BNS stock fell less than National Bank stock in the period partly because BNS stock was already trading at a relatively cheap valuation before the selloff, while the latter was fairly valued based on its historical valuations.

Bank stock investors should feel confident because the banks have increased their earnings over the long run. And we have to trust that today's macro impacts will too come to pass like the negative events of the past.



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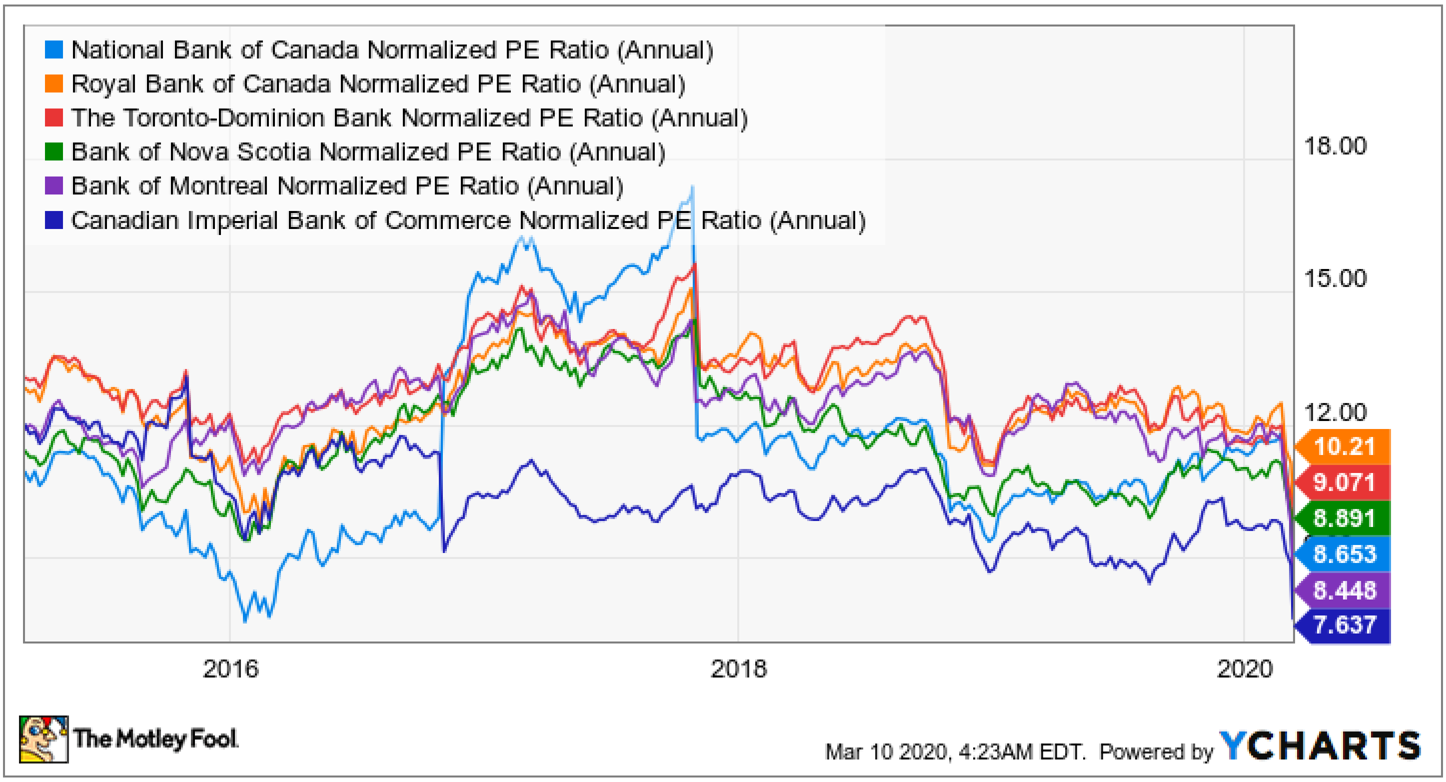
The market prices Royal Bank stock at a premium valuation to the group. And the stock, indeed, trades with the least discount of 19% against its five-year average P/E.



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The Foolish bottom line

The stock market correction has given a unique opportunity to buy the Canadian bank stocks on sale. Given the latest developments, choosing RY stock is the safest option. It should lead to impressive long-term returns with below-average risk. At writing, Royal Bank stock offers a safe yield of 4.8%.

That said, there's no need to panic if you've already invested in other big Canadian banks. They all tend to pay safe dividends and increase their business value in the long run.

We do not know how long the market correction will last. So, averaging into positions is a good way to go.

Five years from now, this dip will be a blip.

Stay Foolish, calm, and invested.

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