2 Oversold Canadian Bank Stocks I Bought in March

Description

Whenever a crisis hits, the Canadian bank stocks tend to be first to fall. Whether it's a financial crisis, a pandemic that leads to a financial crisis, or a sudden oil shock, horrid news tends to backtrack its way to the banks. As the economy faces falls on hard times, bad loans stand to mount, and loan growth tends to be sluggish. But when credit normalizes, and the next bull market is born, the banks are among the first businesses to come roaring back.

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Banks are highly cyclical, and while we've yet to formally fall into a recession, many of the bank stocks are already priced with a steep recession in mind. As such, investors should seek to pounce on them now, while the outlook is bleak before they have a chance to enter the next phase of the credit cycle.

Without further ado, here are two top banks I've been buying on the way down this past month.

Toronto-Dominion Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock is currently down 26% from February 20 (when the coronavirus crash started) and 29% from its 2018 all-time high. The stock sports a rich 5.6% dividend yield, which is ripe for picking, as the stock looks to comeback after getting hammered over a perfect storm of issues.

While the macro picture is unlikely to improve overnight, investors need to remember that TD Bank has stellar risk-management practices. As the hurricane of headwinds continues taking a toll on the Canadian economy, TD Bank has what it takes to overcome the issues and come roaring back when the time comes.

Management is one of the best in the business when it comes to diversifying risk. But as the coronavirus has its grip on the market, few investors seem to care about individual companies anymore. The banks have suddenly become toxic through the eyes of investors. But when the COVID-19 curve inevitably flattens, it'll be oversold, high-quality banks like TD that'll storm out of the gate, rewarding contrarians very handsomely for their vote of confidence.

TD trades at 8.8 times next year's expected earnings and 1.27 times book and looks to have a wide margin of safety, despite the coronavirus crisis, the oil turmoil, and macro headwinds facing the Canadian banks.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is another blue-chip bank that's taken too hard a hit to the chin over the past month. Shares tanked nearly 50% from peak to trough but have since partially rebounded such that shares are now down 39% from the top. With a 6.4% dividend yield, BMO presents a rare opportunity to fearless investors to lock in a massive yield for a fraction of the price.

I've been buying BMO on the way down and will continue to do so if the yield swells above the 7% mark again. The dividend is not only sustainable, but it's also positioned to continue growing in spite of the seemingly insurmountable headwinds.

Analysts at TD Securities recently upgraded BMO to action-list buy (a strong buy) from hold, praising bank for its strong capital and liquidity position that will help the bank bounce back from this crisis.

BMO stock is more than capable of riding out the rough waters that lie ahead. And those who have the stomach to hop aboard have a chance to score a nearly 50% year-ahead return from today's prices in spite of all the negatives that are more than baked into the share price at this juncture. The stock trades at 7.3 times forward earnings and 0.95 times book, both of which are lower than the five-year historical average multiples of 1.5 and 10.9, respectively.

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1. Bank Stocks
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3. Investing

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2. NYSE:TD (The Toronto-Dominion Bank)
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