



Better Canadian Bank to Buy After Q2: TD Bank (TSX:TD) or Scotiabank (TSX:BNS)?

Description

The Canadian banks just finished ripping the Q2 earnings band-aid off. And while the results on the whole weren't nearly as bad as many bears thought, there were significant winners and losers that caused valuation spreads to shift drastically over the week. This piece will have a brief look at the Q2 winner and loser, and conclude with a bank stock that I believe is the best bargain going for long-term investors going forward.

With the [coronavirus crisis](#) and the Canadian credit downturn, no one bank was able to escape from substantial loan loss provisions. Some banks did a better job of rolling with the punches than others. And while it may make sense to go with the bank that's exhibited the most resilience, investors must never forget the price they'll pay. Moreover, if peak provisioning is now behind us, the dogs may make more sense to own, as the banks look to move away from damage control and more towards EPS recovery.

The Q2 winner: Scotiabank

Scotiabank ([TSX:BNS](#))([NYSE:BNS](#)), Canada's international banking giant, saw its loan loss provisions rise to \$1.85 billion, which was essentially in the middle of the pack as far as Big Five banks are concerned. The Canadian bank showed resilience in the face of coronavirus-induced lockdowns, credit costs looked manageable, and the capital ratio remains in good condition.

Shares of Scotiabank surged nearly 8% on the release of its second-quarter results, largely because the damage was mostly contained, and there were no significant surprises following one of the worst economic disruptions in history. The bar was set low for Scotiabank, and it pole-vaulted right over it.

Management believes its segments can remain profitable amid the crisis. Although there are too many uncertainties relating to the coronavirus, I am pleased with management's confidence and think it has what it takes to continue rolling with the punches.

The stock sports a juicy 6.3% yield and may still be worthy of picking up with shares trading at 1.1 times book.

The Q2 loser: TD Bank

TD Bank ([TSX:TD](#))([NYSE:TD](#)) really dropped the ball in the second quarter, with provisions for credit losses surging to \$3.2 billion (versus \$919 million in Q1), substantially higher than that of its Big Five peers.

TD clocked in \$0.85 in adjusted earnings per share, which just missed the mark by three cents.

In a release, CEO Bharat Masrani touted TD Bank's "position of strength" heading into the challenging environment, also praising the "high-quality balance sheet and strong liquidity and capital positions." Nothing new or surprising here given the same could be said for all the Canadian banks with their stable financial footing relative to the 2007-08 Financial Crisis just over a dozen years ago.

The U.S. business was a major sore spot for the quarter, which is no surprise given the country has suffered the most recorded infections and deaths amid the coronavirus crisis.

It was a rough quarter for Canada's most American bank, but don't count it out, as it has room to roar in the post-pandemic environment. TD stock sports a 5.3% yield at the time of writing and looks unsustainably undervalued at just 1.3 times book.

The best Canadian bank for your buck: TD Bank

After the nearly 4% single-day pullback after underwhelming results, I'd have to say that TD Bank is my [new favourite bank](#) at these valuations.

TD Bank is still a wonderful business with stellar risk-management practices, even though the last two quarters' worth of results may not be suggestive of such. I think the shorter-term underperformance is clouding the promising long-term fundamentals, which are still fully intact.

On a price-to-book basis, the "premier" Canadian bank stock hasn't been this cheap since the Financial Crisis. So, if you're still a believer in Masrani and his incredible team, now is time to be backing up the truck on shares while they're under pressure.

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