Got $1,000? A Top TSX Bank Stock to Buy While it Is Still Cheap

Description

Top Canadian banks reported their quarterly earnings last week. Despite a notable earnings drop, there were many encouraging signs in their releases that highlighted the superiority of Canadian banks. Top TSX bank stocks surged last week on lower-than-expected damage driven by the pandemic.

Canadian banks

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock soared almost 8%, while **Toronto-Dominion Bank** stock surged more than 6% last week. **Royal Bank of Canada** surged almost 10% last week. Market participants were anticipating that weak earnings from banks could weigh on the **TSX Index**. On the contrary, bank stocks stood strong and uplifted the broader markets last week.

While COVID-19 has already wreaked havoc on the global economy, banks' earnings act as an important barometre for the potential damage. However, last quarter's earnings indicated a better-than-expected picture for the Canadian banks and, ultimately, for the country's economy.

Even though loan loss reserves steeply increased at the top five Canadian banks and their profits notably plunged, the damage was lower than many anticipated. Investors should note that these loss reserves are the amounts set aside by banks for loans that may go bad in the future. Also, these reserves highlight how pessimistic the banks really are about the future.

Top Canadian banks are seen as dividend machines in the investment community. Many have been paying stable dividends for centuries. Despite COVID-19-related uncertainties and the expected strain on the economy, top Canadian banks have maintained their dividends, which underlines their strong financial health.

Laurentian Bank, the six-largest bank in the country, was an exception. It slashed dividends by 40% last week.

Although the latest quarterly results were relatively better, it does not mean the worst is over. Business activities will be slower to pick up after lockdowns, which might delay the recovery. Also, banks can divide their provisions over a series of quarters to defuse the one-time impact. That might create sustained pressure on banks' earnings for the next few quarters.

Top TSX bank stock for the long term

I think it is still an opportune time to pounce on top Canadian bank stocks. It could be a worthwhile opportunity for investors, particularly those who did not act in the earlier crash in March. The valuation and dividends stand strong, particularly amid these uncertain markets.

One top TSX bank stock that stands out is the Bank of Nova Scotia. It is currently trading at a dividend yield of 6.3%, the highest among peer bank stocks. Notably, Bank of Nova Scotia has paid dividends for the last 187 consecutive years.

Also, it is the most attractively valued top TSX bank stock at the moment. Its price-to-book value stands at one times, the lowest among many peers.

Scotiabank's net income plunged almost 40% in the recently reported quarter, mainly due to higher provisions. The damage at the bank's bottom line was relatively lower compared to the Royal Bank of Canada and Toronto-Dominion Bank. They reported an earnings drop of more than 50% for the quarter compared to the same quarter last year.

Scotiabank's large presence in Latin America offers it a diversified earnings base, which bodes well for stability.

Bank of Nova Scotia stock looks cheaply valued at the moment, and so it has a high potential for faster recovery. For long-term investors looking to bet on the Canadian banking sector, Scotiabank looks an attractive option that offers stability and solid total return prospects.

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