Buy This Combo of Quality TSX Bank Stocks for Only $170

Description

Low interest rates, a decline in economic activity, and higher loan provisioning took a toll on the second-quarter performance of the Canadian banks.

While challenges persist in the near term, massive government support and the reopening of the economy set the stage for a strong rebound in banking stocks. Investors should start accumulating bank stocks but in steps. Moreover, the focus should be on stocks of those banks that are well capitalized and can expand their balance sheets.

To start investing, you can buy a combo of quality TSX bank stocks for as low as $170 a share. I recommend **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) in this combo. The combined price of both these banks comes around $170 per share based on yesterday's closing.

Royal Bank of Canada

While low interest rates and an uncertain economic outlook pose challenges, Royal Bank of Canada's fundamentals remain strong. Canada's largest lender continues to drive loans and deposits and is well capitalized. Royal Bank of Canada's loans and deposits jumped by 10% and 17%, respectively, during the last reported quarter.

Meanwhile, the bank maintains a diversified portfolio of loans, which acts as a hedge by lowering its exposure to vulnerable sectors. Royal Bank of Canada's credit exposure to the beaten-down oil and gas sector stood very low at 1.3%. Further, its exposure to the most vulnerable industries or sectors represented about 7% of its total loans.

Royal Bank of Canada maintains strong capital and liquidity position. As on April 30, the bank's CET1 ratio stood at 11.7%, which is fairly higher than the regulatory requirement of 9%. Besides, its total capital ratio was 14.6%, well above the minimum requirement of 12.5%. Royal Bank of Canada's liquidity coverage ratio also stood higher at 130%.

Royal Bank of Canada is also a solid stock for income-seeking investors. The bank has a long track record of consistently boosting shareholders' returns through higher dividends. Royal Bank of

Canada's dividends has increased at a high single-digit rate over the past several years.

Despite recovering strongly in the past couple of months, Royal Bank of Canada stock trades at a lower price-to-book value ratio, as compared to its historical average, which presents an excellent entry point.

Bank of Montreal

Bank of Montreal is another stock in the Canadian banking space that remains well positioned to generate strong returns in the long run. Similar to Royal Bank of Canada, Bank of Montreal's higher provisions for credit losses remained a drag on its earnings. However, its loans and deposits marked strong growth both on a year-over-year and sequential basis.

Bank of Montreal's CET1 ratio stood at 11.0% at the end of the most recent quarter, which is higher than the minimum regulatory requirement. Meanwhile, its liquidity coverage ratio was also high at 147%. Further, Bank of Montreal's exposure to the oil and gas industry remains low, representing about 3% of its total loans.

Investors should note that Bank of Montreal's strong pre-provision, pre-tax earnings and solid capital position would continue to support its dividends. Bank of Montreal stock currently offers a dividend yield of about 5.7%. Bank of Montreal trades at a next 12-month price-to-book value ratio of 0.9, which well below its historical average of 1.3.

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2. NYSE:RY (Royal Bank of Canada)
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