



3 UNDERVALUED TSX Bank Stocks Yielding Above 4%

Description

While **TSX** stocks at large soared almost 45% in the last four months, bank stocks have notably lagged the rally. Near-term challenges will likely continue to weigh on them. But Canadian banks are well capitalized and have a high-quality credit portfolio, which should underpin a relatively faster recovery.

Investors sitting on some cash can consider these undervalued TSX bank stocks that offer juicy yields and decent growth prospects.

Royal Bank of Canada

The biggest of them all, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) has notably outperformed peers in the last decade. It operates with one of the highest profit margins compared to peers.

During the second quarter of 2020, RBC disclosed that it had minimal exposure to struggling retail and energy sectors. It will be interesting to see how its credit quality stands now when it will report third-quarter earnings next week.

Though provisions for credit losses increase and earnings decline in the next few quarters, Royal Bank's long-term growth prospects remain strong.

RY stock is currently trading at a dividend yield of 4.4%, higher than TSX stocks. Its payout ratio and stronger balance sheet make the dividend cut unlikely.

Royal Bank's stock is trading 10% lower to its pre-pandemic levels. Better than expected earnings and upbeat management commentary could notably boost its stock.

National Bank of Canada

National Bank of Canada ([TSX:NA](#)) is one of the smallest among the Six Big banks in Canada. However, the stock has notably outperformed bigger peers in the short term as well as in the very long

term.

In the recent rally, [National Bank stock](#) soared almost 70% in the last five months, while TSX bank stocks gained around 40%. Interestingly, NA returned almost 250% in the last 10 years, thrashing its peers.

Despite the recent rally, NA stock does not look exorbitantly overvalued. It makes sense to enter at these levels as it offers decent growth prospects.

National Bank stock offers a dividend yield of 4.3%, higher than that of Canadian stocks on average. Its dividends grew by 8% compounded annually in the last five years.

The \$22 billion National Bank has a significant presence in Quebec and serves more than 2.5 million customers across the country. The bank managed to increase its income by 6% compounded annually in the last decade.

Toronto-Dominion Bank

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is the second-biggest bank in Canada and serves more than 26 million customers across the world. Its scale and [strong balance sheet](#) make it stand tall among peers.

TD stock yields almost 5%. It has been paying dividends for the last 163 consecutive years. Its long payment history indicates dividend stability and reliability.

TD stock is still trading 15% lower against its recent highs in February. It looks fairly valued against its historical trends and compared to peers. Its third-quarter earnings, which will be released next week, will pave the path for its stock in short to intermediate-term.

As earlier stated, Canadian bank stocks will likely trade muted in the short term as pandemic-driven factors dominate their earnings. However, they are well-capitalized and will likely emerge stronger from the crisis in the medium to long term.

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