



## Which Is the Cheapest Big Canadian Bank Stock? Should You Buy Now?

### Description

The big Canadian banks are some of the soundest banks in the world. Many investors buy and hold them as core holdings for their [portfolios](#). The banks haven't disappointed by delivering safe dividends during this recession.

The pandemic is weighing down on the banks' near-term earnings due to higher provisions of credit losses and higher levels of bad loans. If you believe that this challenging economic period will come to pass, like negative events of the past, there's no reason these banks' earnings won't normalize over time.

If so, of the Big Six, which is the cheapest Canadian bank stock today?

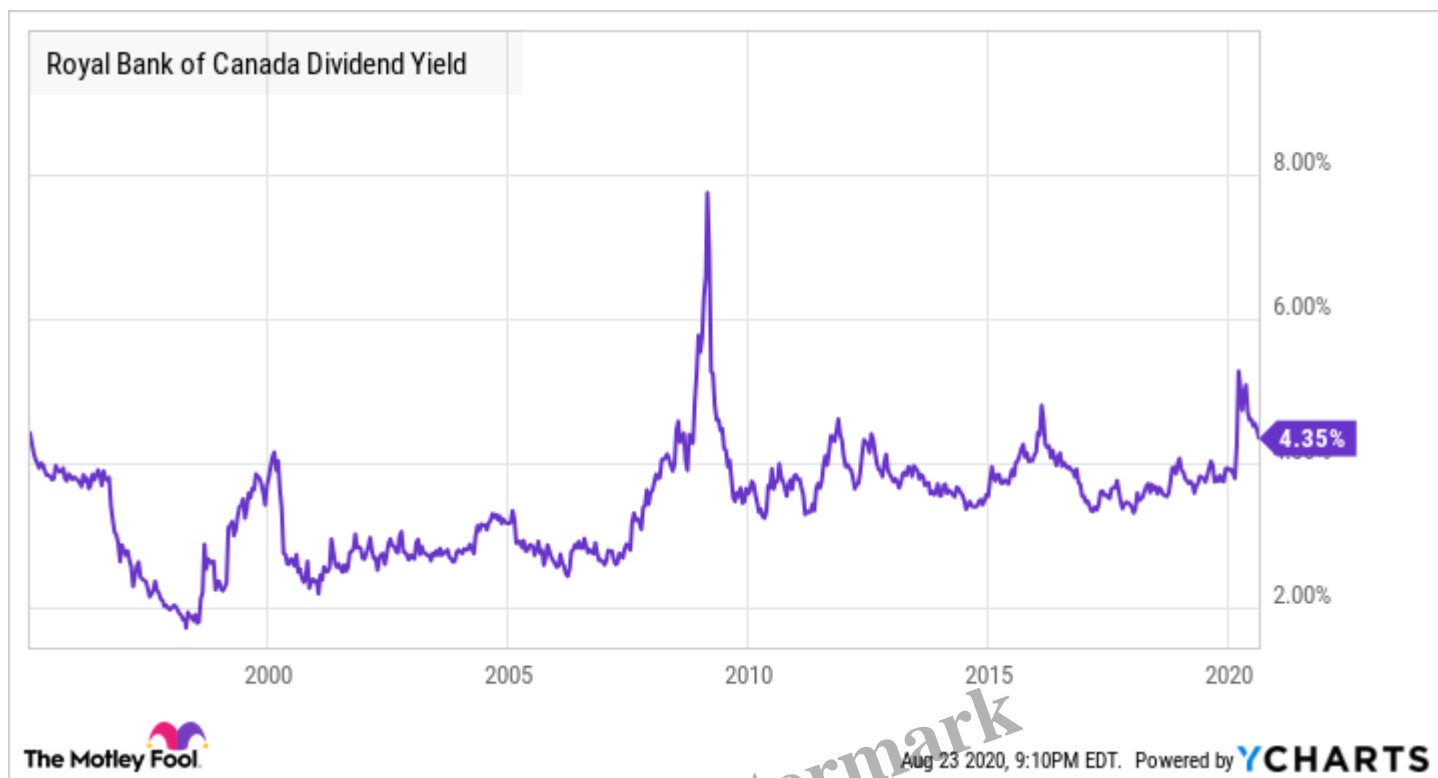
## Which Big Six Canadian bank stock is the most undervalued?

I'll review the Big Six banks and use their last year's earnings as their normal earnings power to determine how undervalued they are against their normal valuations.

Their yield histories can also give a hint on how discounted or not the bank stocks are.

### RBC stock

At writing, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) stock trades at about \$98 per share. Its normal P/E is about 12. So, it trades at a discount of about 8% from its normalized levels, which indicates the stock is within fair valuation.

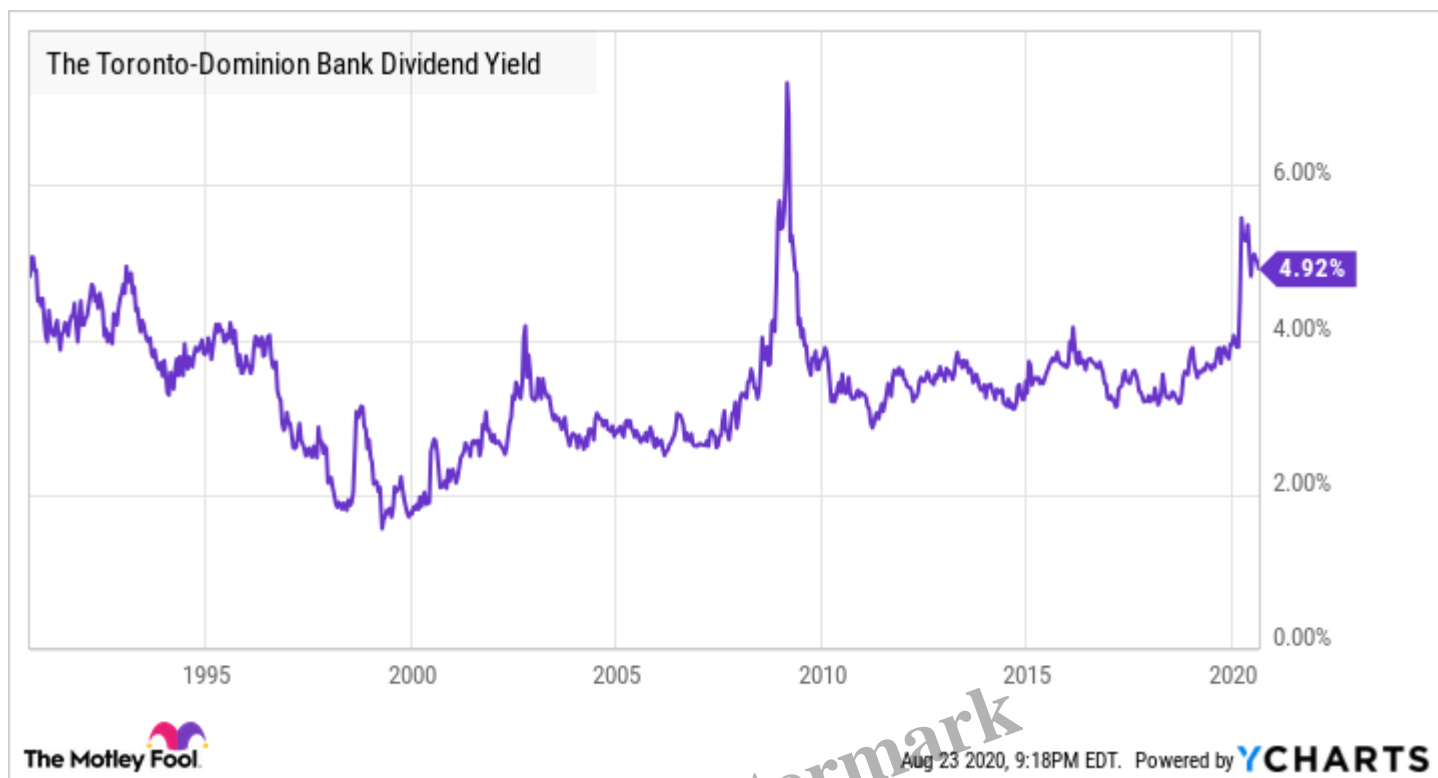


RY Dividend Yield data by YCharts.

As shown in the graph above, Royal Bank stock's dividend yield of 4.4% is also in the middle of its historical yield range. This reaffirms the above view that the bank stock is fairly valued.

## TD stock

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) stock trades at about \$62 per share. Its normal P/E is roughly 11.9. So, it trades at a discount of about 22% from its normalized levels, which indicates the stock is undervalued.



TD Dividend Yield data by YCharts.

TD stock's current yield of nearly 5.1% is elevated compared to its historical yield range. This reaffirms that the dividend stock is undervalued.

## BNS stock

**Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) stock trades at \$55 and change per share. Its normal P/E is approximately 11.5. Therefore, it trades at a discount of close to 33% from its normalized levels, which indicates the stock is substantially undervalued.



BNS Dividend Yield data by YCharts.

BNS stock's yield of almost 6.5% is high compared to its historical yield range. This reaffirms that the high-yield stock is undervalued to a great degree.

## BMO stock

**Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) stock trades at \$75 and change per share. Its normal P/E is approximately 11.2. Therefore, it trades at a discount of nearly 29% from its normalized levels, which indicates the dividend stock has a big margin of safety.

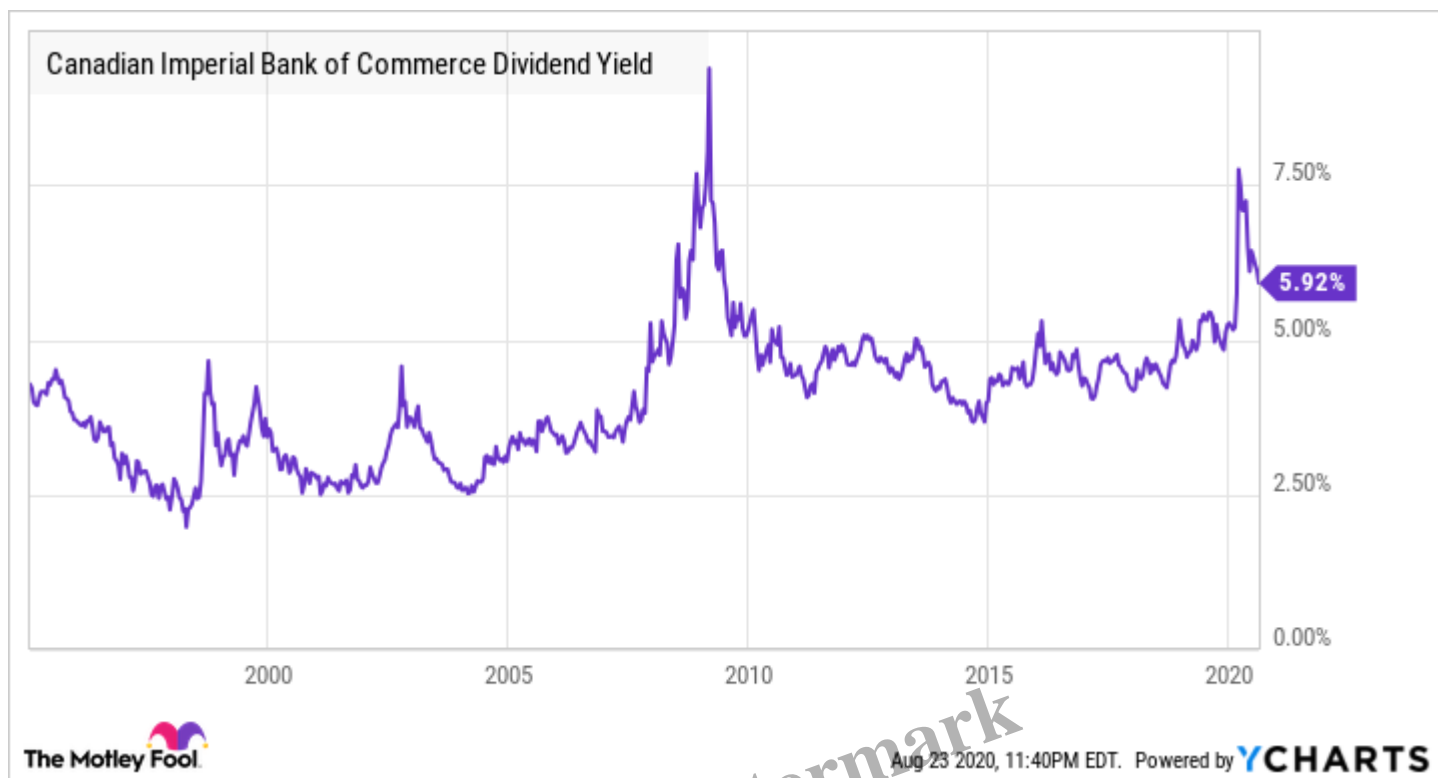


BMO Dividend Yield data by YCharts.

BMO stock's dividend yield of 5.6% is high compared to its historical yield range. This reaffirms that the stock is undervalued.

## CIBC stock

**Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) stock trades at just under \$98 per share at writing. Its normal P/E is about 10. Therefore, it trades at a discount of about 18% from its normalized levels, which indicates the big bank stock is undervalued.

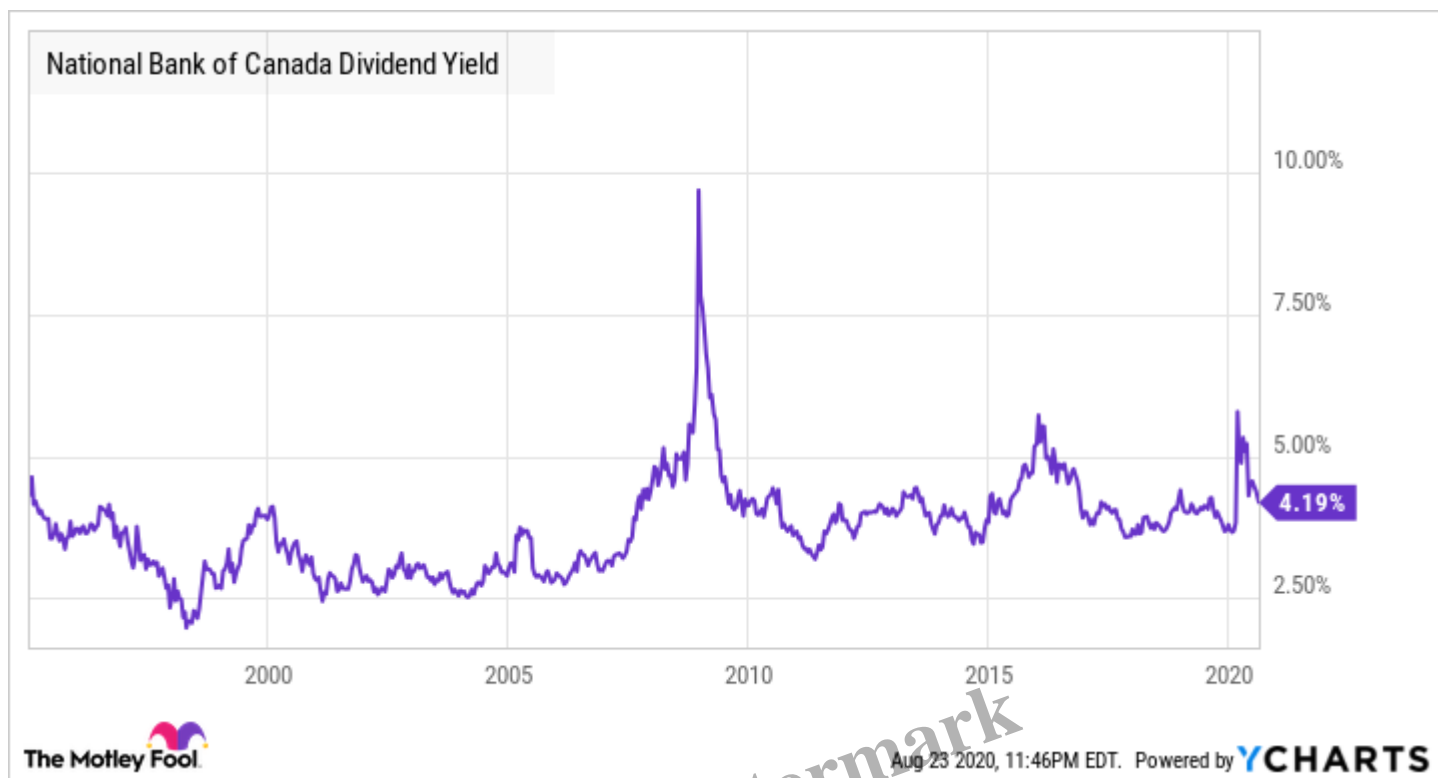


CM Dividend Yield data by YCharts.

CIBC stock's dividend yield of nearly 6% is relatively high compared to its historical yield range. This reaffirms that the stock is undervalued.

## National Bank of Canada

**National Bank of Canada** ([TSX:NA](#)) stock trades at \$67 per share. Its normal P/E is about 10.6. It essentially trades with no discount.



NA Dividend Yield data by YCharts.

National Bank stock's dividend yield of about 4.2% aligns with the normal level of its historical yield range. This reaffirms that the stock is fairly valued.

## The Foolish takeaway

Using the method outlined above, BNS stock is the most undervalued Big Six Canadian bank. On a reversion to the mean, the international bank stock can experience extraordinary upside against its peers — especially against RBC and National Bank stocks, which appear to be fairly valued.

But [RBC](#) and NA stocks' fair valuation suggests the investing community view them as the highest-quality banks among the Big Six in the current stressful environment.

In other words, investors shouldn't necessarily sell out of these stocks just because they're more expensive than their peers.

### CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

### TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
7. TSX:BNS (Bank Of Nova Scotia)
8. TSX:CM (Canadian Imperial Bank of Commerce)
9. TSX:NA (National Bank of Canada)
10. TSX:RY (Royal Bank of Canada)
11. TSX:TD (The Toronto-Dominion Bank)

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