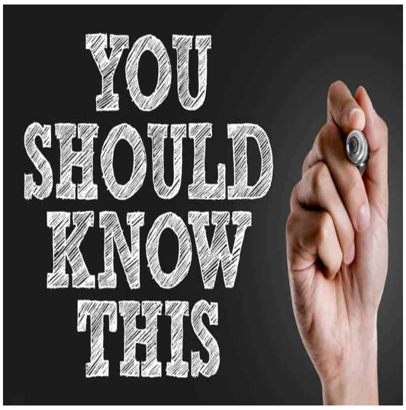

3 Top TSX Bank Stocks to Buy in September 2020

Description

When it comes to Canada's banking companies you generally think about the Big Five giants. While the Big Five have created significant wealth for investors, there are smaller players who are growing at a faster pace and might outperform the broader markets in 2020 and beyond.

Here we look at three such Canadian banks that investors should follow.

National Bank of Canada

While most banking stocks are trading at a lower price compared to their 52-week highs, the **National Bank of Canada** (TSX:NA) has managed to recover its losses and stage a stellar comeback.

National Bank of Canada is the country's sixth-largest bank with a market cap of $24.4 billion. In the second quarter, it reported a net income of $602 million, marginally lower than its net income of $608 million in the prior-year period. Its earnings per share of $1.66, easily beat consensus estimates of $1.30.

National Bank of Canada's revenue stood at $2.02 billion, marginally lower compared to $2.04 billion in the prior-year period. Its provision for credit losses was $143 million, compared to just $57 million in Q2 of 2019.

National Bank's stock has close to doubled since March and it also sports a dividend yield of 3.9%. A dividend cut seems unlikely given the stock's low payout ratio of 46.4%.

Laurentian Bank of Canada

While National Bank has recovered its losses in 2020, **Laurentian Bank of Canada** (TSX:LB) continues to trade at a cheap multiple. This stock is ideal for contrarian investors with a high-risk appetite.

In the second quarter, LB reported a 24% decline in net income while its revenue was up year-over-year. The company's board of directors approved a dividend cut of 40% and the LB's quarterly dividend per share now stands at $0.40. After accounting for this cut, LB stock still has a forward yield of a tasty 5.53%.

Laurentian Bank has a forward price to sales multiple of 1.3 and its price to earnings multiple is 13.1. The stock's low valuation and attractive dividend yield coupled with its focus on maintaining adequate leverage make it a stock that can generate market-beating returns on the rebound.

Canadian Western Bank

Shares of **Canadian Western Bank** (TSX:CWB) are trading at 23.5% below its 52-week high. The stock has a forward dividend yield of 4.2% and is another undervalued stock for your portfolio. Canadian Western Bank is trading at a forward price to earnings multiple of 9.6 while its price to sales ratio is also 2.8.

Analysts tracking Canadian Western Bank stock have a 12-month price target of $29.1 which is 4% above the current trading price. After accounting for its dividend yield, annual returns might be over 8.2%.

Canadian Western Bank has gained around 50% since bottoming out in March and remains a strong pick for long-term investors. It has increased dividends for 28 consecutive years and in the last 10 years dividends have risen at an annual rate of 9%.

The Foolish takeaway

Banking stocks have been volatile due to the COVID-19 pandemic. Investors are concerned about high unemployment rates and the probability of rising defaults. However, these companies should move higher once the economy stabilizes and generate outsized returns.

The three bank stocks also have attractive dividend yields, which means if you invest $20,000 in each of these stocks, you can generate over $2,700 in annual dividend payments.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:NA (National Bank of Canada)

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Date
2025/08/22
Date Created
2020/09/08
Author
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