2 Canadian Bank Stocks to Bank on Before the Next Bull Market

Description

I can't remember the last time the Canadian banks were this out of favour. Many of the big banks are Dividend Aristocrats with dividends that are well over 100 years old. While this crisis has put many of their loan books under pressure, they're in a spot to rally fiercely on better-than-feared numbers as we gradually move out of this pandemic.

Many folks, including *Mad Money* host Jim Cramer, are not pounding the table of the banks despite them sporting valuation metrics that are close to the cheapest they've ever been. This economy has areas of severe weakness and areas of tremendous resilience. Unfortunately, the banks have a broader exposure to various sectors, and those, like **Bank of Montreal** (TSX:BMO)(NYSE:BMO), with exposure to the hard-hit U.S. economy and the ailing oil and gas (O&G) sector, have seen their pains amplified this year.

Such banks have had to endure steep provisions for credit losses (PCLs), and as many financially distressed firms become unable to meet their debt obligations, the banks are the ones that stand to get caught skating offside. In many instances, however, the negativity and selling have been overdone. You need to remember that Canada's top banks are still the bluest of blue chips out there. They're ridiculously well capitalized. They were stress-tested and built to withstand crises like the one we find ourselves in right now.

I have no doubt that the banks will rise again. As seen in the aftermath of the Great Financial Crisis, some banks will be quicker to recover, some will have more room to run off the bottom, while others will underperform the peer group. This piece will look at two stocks that I believe offer the most compelling value at this juncture.

So, without further ado, here are what I believe are the two best banks for your buck.

Bank of Montreal

BMO has one of the oldest dividends out there. The bank, known as Big Blue to some, was also unfortunate enough to have had among the most vulnerable loan books heading into the crisis and was punished with excessive amounts of downside as a result.

Amid the post-coronavirus-crash depths, banks traded at a lofty discount to its book value despite being one of the more robust Dividend Aristocrats out there. Today, shares have bounced back, trading at around book value. But I think the name has plenty of room to run, as it looks to regain the ground lost earlier this year.

BMO sports a bountiful 5.2%-yielding dividend that's not going anywhere anytime soon. While a worsening pandemic could weigh further on upcoming quarters, I'd say that with so much pessimism baked in that BMO is one of the most attractive post-COVID bets, even though a bumpy road to recovery lies ahead. At around $81 and change, BMO, I believe, is the best Big Six bank for your buck.

Canadian Western Bank

Canadian Western Bank (TSX:CWB) is a regional bank that operates, as you may have guessed, in western Canadian provinces. That means Canadian Western Bank has a front-row seat to the ailing province of Alberta, which is under stress following the latest downturn in the oil patch.

Alberta's economy has endured the perfect storm, but in due time, such pressures will fade over time, and Alberta-exposed financials like CWB will be on the mend quicker than most expect. Like BMO, CWB took a brunt of the damage back in February and March, after years of sub-optimal performance. Despite the recent 76% relief rally off its lows, the regional bank continues to look undervalued, with shares trading at a 12% discount to book value.

The 4.2% yield may not be as bountiful as it was a few months ago, but it still looks safe given the headwinds. As Alberta gradually mends from this unprecedented crisis, CWB stock could have more than 30% upside by 2021's end.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:CWB (Canadian Western Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

Date
2025/08/22
Date Created
2020/10/08
Author
joefrenette