



## 2 UNDERVALUED Canadian Bank Stocks to Buy Ahead of Their Earnings

### Description

With favourable developments on the vaccine front, global economies may have started seeing the end of the pandemic. Interestingly, we might see faster recoveries across the board, despite the dominating second wave.

A vaccine launch early next year could notably relieve Canadian banks. The country's unemployment rate is still high and might affect their asset quality if the pandemic lasts longer than expected.

### Top Canadian banks to report their Q4 earnings

The TSX Composite Index has soared almost 50% since its record lows in March. Canadian bank stocks have largely underperformed markets in this duration.

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) stock has soared around 30% since March. The sixth-largest bank stock, **National Bank of Canada** ([TSX:NA](#)), has notably stood out and returned more than 55% in this period.

Despite their performances, I'm positive about both these TSX stocks for the long term. Their asset quality, underlying growth potential, and discounted valuations make them superior against peers at the moment.

Both Royal Bank of Canada and National Bank plan to report their fiscal fourth-quarter results in early December. The momentum in these stocks, driven by vaccine news recently, could well continue for the next few weeks ahead of their earnings.

### Royal Bank of Canada

The country's biggest bank Royal Bank is expected to report revenues of \$11.5 billion for the quarter, a marginal increase compared to Q4 last year. The pandemic has ravaged many businesses and jobs this year. However, the impact on the bank's top line has been minimal.

Royal Bank set aside more than \$3.5 billion in [provisions for bad loans](#) in the last two quarters. Its prudent provisioning will likely minimize the dent in the upcoming quarterly earnings.

Investors should note that many Canadian banks reported record profits in capital market trading in the earlier three months. Investors can expect similar performances in fiscal Q4, driven by continued strength in capital markets.

Along with earnings, management's outlook for the next year will be an important indicator for Canadian investors.

Royal Bank stock offers a dividend yield of 4.2%, higher than TSX stocks at large. Its dividends are well covered by the earnings, and any payout cut seems unlikely at this point. Importantly, the stock is notably cheap compared to its historical and the industry average.

## National Bank of Canada

National Bank, the leading bank in Quebec, will report its fiscal Q4 earnings on December 2. It is expected to report approximately \$2 billion in revenues for the quarter. That's almost a flattish growth year over year, in line with the industry average. National Bank reported \$650 million in provision for credit losses in the last two quarters.

National Bank has one of the strongest dividend profiles and yields over 4% at the moment. The stock is already a long-term outperformer among peers. It has returned more than 220% in the last decade, beating TSX bank stocks at large. Interestingly, National Bank stock is undervalued, despite the recent rally.

Canadian bank stocks are only a few percentage points shy of their all-time highs. Notably, the rally could keep going driven by their fair quarterly earnings and [vaccine euphoria](#).

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1. Bank Stocks
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### TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:NA (National Bank of Canada)
3. TSX:RY (Royal Bank of Canada)

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### Author

vinitkularni20

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