



Is Now a Great Time to Buy High-Yield Bank Stocks?

Description

With the positive vaccine data and uptick in economic activities, bank stocks are looking like attractive investment bets. Banks are expected to deliver a strong sequential improvement in profitability, thanks to a steep decline in the provisions for credit losses. Meanwhile, cost reduction initiatives and credit off-take should further cushion the bottom line.

While the improving operating environment supports the recovery, strong dividend history, and high yield gives another reason to bet on the bank stocks.

Toronto-Dominion Bank

The positive vaccine data and the reopening of the economy have led to a steep recovery in the **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) stock. While the shares of Toronto-Dominion Bank recouped almost all of its losses, it could trend higher in the coming quarters, reflecting an expected improvement in loans and deposit volumes and reduction in provisions.

The provision for credit losses is likely to decrease across all segments on a quarter-over-quarter basis and ease pressure on the bottom line. Meanwhile, productivity savings and the focus on tight expense management should further cushion its profitability.

Toronto-Dominion Bank has been paying dividends for the past 164 years, thanks to its ability to generate strong earnings consistently. Meanwhile, its dividends have grown by 10% annually in the last two decades, which is higher than its peers.

With an expected improvement in its bottom line, Toronto-Dominion Bank remains well-positioned to consistently boost investors' returns through higher dividends. Currently, Toronto-Dominion Bank offers a dividend yield of 4.5%.

Bank of Montreal

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) has impressed investors with its recent financial performance. Its top line improved both on the sequential and the year-over-year basis in the most

recent quarter. Meanwhile, its total provision for credit losses decelerated sequentially.

Its diversified business model and sustained momentum in the personal and commercial banking positions it well to benefit from the uptick in economic activity. Besides, its acquisition of new clients, expansion of loan book, strong deposit growth, and expense management are likely to drive pre-provision pre-tax earnings.

Bank of Montreal stock is also looking attractive on the [valuation front](#). Its stock is trading at a price-to-tangible book value of 1.5, lower than its peer group average of 1.9. Besides, it has a long history of boosting investors' returns through consistent dividend payments.

The bank has paid dividends for [191 years](#) — the longest by any company in Canada. Moreover, it has raised its dividends by 6% annually over the past 15 years. Currently, it offers a high dividend yield of 4.4%.

Bottom line

The economic reopening is driving the recovery in bank stocks. Meanwhile, an effective vaccine against the COVID-19 pandemic could step up the recovery pace and help these banks deliver outsized growth in the medium term.

Investors eyeing top quality bank stocks with high yield could consider buying the shares of Bank of Montreal and Toronto-Dominion Bank at the current levels. Both these banks have a high-quality earnings base and sustainable payout ratio, which indicates that investors could expect consistent dividend hikes in the coming years.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

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1. NYSE:BMO (Bank of Montreal)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BMO (Bank Of Montreal)
4. TSX:TD (The Toronto-Dominion Bank)

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Date

2025/08/23

Date Created

2020/11/30

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