TSX Bank Stocks: Worth Buying After Earnings Season?

Description

Canada's biggest banks just turned in a bumper crop of earnings beats. But the bullishness in financials at the moment could be overlooking a more bearish outlook. Let's take a look at three of the best picks from this space.

Watch these bank stocks in 2021

Scotiabank (TSX:BNS)(NYSE:BNS) is up 17% in the last four weeks. If nothing else indicates a bank stock worth holding, its most recent quarterly beat should. Banks have had a rough ride in the last year. Scotiabank is still negative for the last 12 months by around 10%. But its most recent quarter suggests that there is indeed a light at the end of the tunnel. And for new investors, its 5.4% dividend yield is both rich and competitive.

In fact, Scotiabank can compete across the board – and not just with other bank stocks. From excellent balance sheet health to a well-covered distribution, this is one healthy ticker. As touched on a moment ago, Scotiabank is good value for money. It trades with a discount of 20% off its fair value. There could be some earnings growth ahead, too. That's rare for a bank. But around 8.5% could be added annually in this regard.

BMO (TSX:BMO)(NYSE:BMO) fared less well than Scotiabank this earnings season. However, BMO still managed to pull a fairly decent quarter out of the bag. While it as something of a clean sweep for Big Five/Six banks in the most recent quarter, BMO is a particularly solid buy. From diversified asset management exposure to a 4.3% dividend yield, BMO has remained a popular bank stock to buy in 2020.

BMO CEO Darryl White prefaced earnings season with an upbeat appraisal. "While the path of the pandemic and the economic recovery remains uncertain, we now know that vaccines will be available relatively soon." White struck a hopeful tone, adding, "There's good reason to be optimistic about the associated economic recovery accelerating as 2021 progresses."

A rough year ahead

RBC CEO Dave McKay introduced a note of caution, though. Speaking on a conference call this week, Dave McKay painted a pessimistic picture, saying, “We expect mortgage growth to slow going forward as pent-up housing demand begins to cool.” While banks have posted better than expected quarterly results, the emphasis going forward will be on growth, therefore. Or, rather, the lack of it.

Stocks like RBC, BMO and Scotiabank satisfy a range of investing styles. But investors may want to wait to pick up shares at a lower price if they’re going long on dividend stocks. Next year could provide ample opportunities to pick up cheaper shares. While the current bullishness in banks is reassuring, better value will likely be had once the economic realities of a post-pandemic market become clearer to see.

In summary, 2021 could be a tougher year for banks. Investors have cut moneylenders some slack during the lockdowns. But a recovering economy is likely to be intensely performance-based. There is the potential for expectations to be undermined by slowing activity at exactly the time when shareholders are looking for growth. In short, banks were running on fumes in 2020; next year will be all about how to refuel.

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