



My Top 3 Bank Stocks to Buy in the New Year

Description

Canadian bank stocks were hit hard by the market pullback that occurred in the late winter and early spring of 2020. Shares of Canada's top financial institutions only managed to recoup most of their losses in the final weeks of the year. Banks have seen their earnings improve from the rough stretch in the spring of 2020, but executives continue to warn that we are not out of the woods. Today, I want to rank my top three bank stocks to kick off the new year. These banks offer a combination of value, good dividends, and released earnings in Q4 2020 that showed promise. Let's dive in.

My top ranked bank stock in 2021: TD Bank

When bank stocks were reeling in the spring of 2020, I'd suggested that investors jump on some appealing prices. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) was one of the equities I'd [targeted at the time](#). Shares of TD Bank rose 3% in 2020. The stock rose 17% over the last three months of the previous year.

TD Bank released its fourth-quarter and full-year 2020 results on December 3. The bank posted net income of \$5.1 billion — up from \$2.9 billion in the previous year. This was a big beat in the face of challenging circumstances. The bank's Capital Markets division saw profits more than triple from the prior year, while net income in its retail operations rose 3% year over year.

Shares of TD Bank possess a favourable price-to-earnings (P/E) ratio of 11 and a price-to-book (P/B) value of 1.4. Better yet, it offers a quarterly dividend of \$0.79 per share. That represents a solid 4.4% yield.

Runner-up to start the year: Scotiabank

Scotiabank ([TSX:BNS](#))([NYSE:BNS](#)) is sometimes called “The International Bank” due to its large global footprint, particularly in Latin America. This exposure was a hindrance in 2020, as Latin America’s economy was hit very hard by the pandemic. Shares of Scotiabank fell 1.3% in 2020. However, the bank stock finished the year strong, rising 26% over the last three months.

Like TD Bank, Scotia also beat expectations in the fourth quarter. Scotia reported adjusted earnings per share of \$1.22, which beat analyst expectations. Provisions for loan losses were also down at Scotia and for its peers, which had been eating into earnings in previous quarters. Global Banking and Markets posted record adjusted earnings of \$2.03 billion in 2020 — up 20% from the prior year.

The bank stock last had a favourable P/E ratio of 12 and a P/B value of 1.3. Moreover, Scotiabank boasts a quarterly dividend of \$0.90 per share. This represents a strong 5.2% yield.

My third-ranked bank stock to start 2021: CIBC

My third-favourite bank stock to open the year is **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). CIBC’s stock increased 6% last year. Back in August 2020, I’d suggested that investors should [snag the fifth largest](#) of the Big Six bank stocks. Its shares rose 10% in the final three months of 2020.

In Q4 2020, CIBC reported adjusted profit per share of \$2.79. This was down marginally from the prior year but still above analyst expectations. CIBC entered 2020 hoping to bolster its real estate portfolio, which had faltered in years since the 2017 correction. Canadian real estate surged in the second half of 2020 and is entering 2021 with significant momentum. CIBC’s push to bolster its portfolio may yet pay off in 2021.

Shares of CIBC have a P/E ratio of 13, which is in line with the Big Six average at the time of this writing. The bank stock does offer a quarterly dividend of \$1.46 per share, representing a 5.3% yield. This is the strongest dividend offering of the Big Six Canadian bank stocks.

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2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CM (Canadian Imperial Bank of Commerce)
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