



Revealed: The Top Canadian Bank Stocks for 2021 and Beyond

Description

The big Canadian bank stocks are core holdings of many North American investors' portfolios. The reason is simple. For a long time, the banks have provided safe dividends backed by stably growing earnings.

Going over the big bank's results in recent periods reveals the best banks to own for the long haul. Here are the earnings growth, dividend growth, and total returns of the Big Six Canadian banks, including **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), **Bank of Nova Scotia**, **Bank of Montreal**, **Canadian Imperial Bank of Commerce**, and **National Bank of Canada** ([TSX:NA](#)). They're ordered from largest market cap to smallest.

Bank	FY 2011-2019 EPS	FY 2011-2020 EPS	FY 2015-2020 EPS	FY 2011-2020 DGR	FY 2011-2020 Total Returns
RY	9.04%	6.46%	3.26%	7.90%	10.80%
TD	8.79%	5.15%	3.06%	9.80%	8.60%
BNS	5.34%	1.45%	-1.29%	6.30%	5%
BMO	7.49%	4.27%	1.95%	4.20%	7.20%
CM	6.09%	2.99%	0.50%	5.30%	7.30%
NA	7.75%	6.29%	5.21%	8.60%	9.90%
Average	7.42%	4.44%	2.12%	7.02%	8.13%

* FY – Fiscal year

* EPS – Earnings per share

* DGR – Dividend-growth rate

RBC, TD, and National Bank stocks beat the banking average across all columns. RBC stock came out as the ultimate winner for delivering total returns of 10.8% from FY 2011 to FY 2020, followed by National Bank stock and TD stock.

However, National Bank materialized the strongest earnings-per-share growth from FY 2015 to FY 2020, which is the driver for future dividend growth. Importantly, National Bank's FY 2020 payout ratio was about 47%. It's quite an achievement during a disrupted year in the economy by the pandemic to have a payout ratio like that.

Typically, the big Canadian banks' payout ratios don't stray far away from the 50% range. National Bank's payout ratio was low last year because its EPS only declined about 5%, while its bigger peers' EPS declined by 12-25%.

One reason National Bank is growing at an above-average rate could be because of its smaller size. Its market cap is less than half of the size of the smallest Big Five bank, CIBC.

The top Canadian bank stocks for 2021 and beyond

Investors are encouraged to choose their top Canadian bank stocks from RBC, TD, and National Bank, given our discovery above. The banks have their differences.

RBC consists of a diversified business across personal and commercial banking (45% of earnings in fiscal 2020), capital markets (24% of earnings), wealth management (19%), insurance (7%), and investor and treasury services (5%). In FY 2020, 59% of its revenues came from Canada, 25% were from the United States, and 16% were international. If you're looking for the most stable bank, RBC should be your top choice.

TD is the fifth-largest North American bank by total assets. It's focused on retail banking in Canada and the U.S. and a leading wholesale banking business. Its growth is directly affected by the health of the Canadian and the U.S. economy.

In FY 2020, TD's earnings mix was 58% Canadian retail, 18% U.S. retail, 14% wholesale, and 10% TD Ameritrade (from the Schwab acquisition in October 2020).

National Bank turns out to be the most Canadian bank in that about 80% of its revenue comes from Canada. In Canada, it's focused in Quebec, which generates about 55% of its revenue. So, its earnings growth will rely on the health of the Canadian economy as well as its ability to gain market share in the country.

The Foolish takeaway

The Big Six Canadian banks' dividends appear to be safe. Though, they might freeze their dividends until the pandemic situation is cleared. When there's economic contraction, like what happened last year, the bank stocks experienced large declines, which was a great time to add to your core bank stock holdings.

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TICKERS GLOBAL

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2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:NA (National Bank of Canada)
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