2 Top Canadian Bank Stocks to Buy Right Now for 2021

Description

I expect the Canadian bank stocks to outperform the benchmark index in 2021 and deliver strong growth, thanks to the improving economic outlook, lower provisions for bad loans, and credit growth. I believe most of the top Canadian banks could return to profit in 2021, which could drive their stocks higher. Moreover, banks are likely to boost shareholders' returns through share repurchases and higher dividends.

Here we'll focus on two top Canadian bank stocks expected to report strong financial and operating performance and deliver stellar returns in 2021. Besides, both these banks are trading at a lower valuation multiple compared to the peer group average, which makes them attractive at the current price levels.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) continues to impress with its financial performance despite the challenges from the pandemic. The bank ended FY20 on a higher note and recently reported stellar Q1 performance.

It reported an adjusted net income of $2.04 billion in Q1, up 26% year over year. Its stellar performance on the bottom line front reflects higher net interest income and lower provisions. Further, its adjusted efficiency ratio improved to 56.3% compared to 60.3% in the prior-year period.

The financial group's CEO, Darryl White, said, "We had a very strong start to the year, continuing to build on clear and consistent operating momentum to deliver first quarter adjusted net income of over $2 billion, earnings per share of $3.06, and pre-provision, pre-tax earnings growth of 16% from last year and 13% from last quarter."

I expect Bank of Montreal to benefit from the continued growth in average loans and deposits. Further, expense management and strong credit performance are likely to drive its earnings, in turn, its stock in 2021. Moreover, Bank of Montreal is expected to boost its shareholders' returns through consistent dividend payments.

The bank paid dividends in the past 192 years and raised it by an average annual growth rate of 6% in the last 15 years. It pays a yearly dividend of $4.24 a share, translating into a yield of 4.0%. It trades at a price/book value ratio of 1.3, which lower than the peer group average of 1.6.

Scotiabank

Similar to Bank of Montreal, **Scotiabank** (TSX:BNS)(NYSE:BNS) impressed with its Q1 performance and is likely to deliver stellar returns in 2021. Scotiabank reported a net income of $2.4 billion, which improved on a year-over-year basis, reflecting lower provisions, expense management, and operating leverage.

Scotiabank CEO Brian Porter said, "As we emerge from the pandemic, I am confident of continued strong performance across the Bank."

I believe Scotiabank's exposure to the high-quality and high-growth markets is likely to drive its revenues in 2021. Moreover, lower credit provisions and operating leverage are expected to cushion its bottom line. Scotiabank is trading at a price/book value ratio of 1.4, which is lower than most of its peers and presents a good entry point for long-term investors.

Further, Scotiabank has consistently paid and raised its dividends over the past several years. It pays an annual dividend of $3.60 a share, translating into a yield of 4.9%.

CATEGORY

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2. NYSE:BNS (The Bank of Nova Scotia)
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4. TSX:BNS (Bank Of Nova Scotia)

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