Canadian Banks Ace Q2 Earnings: Here's a Top TSX Stock to Buy Today

Description

Canadian banks have painted a rosy picture for the post-pandemic world after their blockbuster Q2 performance. Apart from the earnings and revenue growth, the massive reversal of loan loss provisions indicates confidence in the recovery and credit quality. It should notably improve investor sentiment on the street, fuelling another rally in **TSX** stocks.

Canadian banks report solid Q2 earnings.

Royal Bank of Canada (TSX:RY)(NYSE:RY) reported a net income of $4 billion for the quarter ended April 30, 2021. That's a steep growth of 60% from a comparable period last year. Royal Bank reversed $96 million from provisions for credit losses during the quarter. In the same quarter last year, it set aside $2.8 billion for loans that could go soar amid the pandemic.

Note that robust stimulus spending and faster economic recovery have spectacularly improved Canadian banks' credit picture. Banks never used all the money that was provisioned for bad loans as the situation remained under control.

These reserves will be used as a growth capital or be returned to shareholders in the form of higher dividends. Royal Bank stated that while uncertainty over the impact of the COVID-19 pandemic remains, the releases were driven by improvements in our macroeconomic and credit quality outlook.

Asset quality improve

Canada's second-largest bank, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) reported a similar set of numbers. Its net income surged to $3.7 billion for the quarter against $1.5 billion in Q2 2020. TD released $377 million from provisions for credit losses during the quarter. It booked $3.2 billion for provisions a year earlier.

Canadian banks have seen stupendous earnings growth this year, driven by almost all of their major verticals. Capital market gains continued to notably stand out amid rallying equities.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) also reported its fiscal second-quarter earnings today. Its net income quadrupled to $1.7 billion for the quarter. It saw a similar trend, with provisions dropping significantly during Q2 2021.

TD Bank stock has soared more than 25% this year, while Royal Bank has risen almost 18%. CM stock stands tall among these with a 28% gain this year. In comparison, the **TSX Composite Index** is up 13% so far this year.

But which stock to buy after almost all Canadian banks have delivered solid Q2 results?

Top TSX stock to buy

Toronto-Dominion Bank looks relatively well placed among peers. At the end of Q2 2021, TD Bank had a common equity tier 1 ratio of 14.2%. It is a metric that shows banks' financial cushion to withstand severe economic decline. In comparison, peer Canadian banks' CET1 ratio averaged around 12%.

TD Bank stock currently yields 3.6%, close to TSX stocks at large. Notably, TD's robust cash position released from provisions might unlock significant shareholder value in 2021 and beyond.

Bottom line

TSX stocks at large have shown a remarkable upturn since last year amid the stable economic recovery. Improving credit scenario at Canadian banks suggest that the worst is already behind, and the economy is poised for growth. All told, Canadian markets will likely continue to trade strong, at least in the short to medium term.

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