



3 Top Bank Stocks to Buy in July 2021

Description

The big Canadian bank stocks are core holdings in many investor portfolios. There are good reasons for that. The banks have paid dividends for decades. In the last two decades, they have increased their payouts in most years.

The banks' dividend increases are supported by sustainable payout ratios and steady earnings growth. From the dividend and earnings growth, investors have generated roughly market returns over the long haul while receiving above-average income.

Here are three top bank stocks investors can buy in July 2021. They're reasonably valued at this point in time. Of course, you can also buy more shares pretty much any time there's a meaningful correction.

Right now, the Canadian market yields about 2.6%. In comparison, the top bank stocks to buy below provide yields of 3-3.6%. The bank yields are at the low end of historical levels because of a period of dividend freeze through the pandemic. Regulators have prevented the banks from raising their dividends as a precaution. The ban is expected to lift as pandemic impacts subside.

Royal Bank of Canada

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) has a diversified business mix. Its key earnings contributors in the last 12 months are as follows: 46% from personal and commercial banking, 28% from capital markets, and 17% from wealth management. Its core business is in North America, generating about 58% of revenues in Canada, 26% in the United States, and 16% in other countries.

From fiscal 2007 to 2019, the bank compounded its earnings per share by approximately 6.5% per year. This period was chosen, as it covers the business cycle that included a Great Recession and the subsequent economic recovery. [RBC stock](#) has kept the same quarterly dividend for six consecutive quarters.

At just under \$128 per share at writing, the leading bank stock is reasonably valued with a blended price-to-earnings ratio of about 12.9. It offers a 3.4% yield, and its forward payout ratio is projected to

be roughly 40%. So, expect a nice dividend hike as soon as the regulators allow it.

Toronto-Dominion Bank

Other than Royal Bank, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) also has a leading position in the banking sector. Specifically, TD Bank focuses on Canadian and U.S. retail banking. The quality bank also has a wholesale banking that caters to bigger clients.

From fiscal 2007 to 2019, the bank compounded its earnings per share by approximately 7.3% per year. [TD stock](#) has kept the same quarterly dividend for six consecutive quarters.

At below \$85 per share at writing, the leading bank stock is reasonably valued with a blended price-to-earnings ratio of about 12.3. It yields 3.6%, and its forward payout ratio is projected to be roughly 42%. So, like RBC stock, TD stock can also healthily increase its dividend soon.

National Bank of Canada

National Bank of Canada ([TSX:NA](#)) has a diversified business mix consisting of personal and commercial banking (40% of revenues), financial markets (25%), wealth management (24%), and U.S. specialty finance and international (11%). Particularly, its U.S. specialty finance and international and financial markets operations were higher profit businesses last year.

From fiscal 2007 to 2019, the bank compounded its earnings per share by approximately 7% per year. National Bank stock has maintained the same dividend for seven straight quarters.

At about \$94 per share, the bank is reasonably valued and provides a yield of about 3%. Its forward payout ratio is anticipated to be about 33%. So, it's possible that the sixth-largest Canadian bank can make a massive dividend increase compared to its bigger peers when the regulators lift the ban.

The Foolish investor takeaway

The top three Canadian bank stocks introduced are great long-term holdings for above-average income and providing roughly market returns. They're fairly valued today. Interested investors might consider nibbling now and add to their positions on meaningful corrections of more than 10%.

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1. Bank Stocks
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1. NYSE:RY (Royal Bank of Canada)

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

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