



The Best Bank Stock for 2021

Description

Canada's bank stocks have had a phenomenal run over the past year. Government stimulus measures, record-low interest rates, and a record-high appetite for credit have boosted nearly every major bank's balance sheet.

Altogether, the top bank stocks have delivered double-digit returns so far this year. However, one of the top banks stands out as the best investment opportunity, in my opinion. Here's a closer look at why **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) is clearly the best bank stock to buy right now.

TD Bank stock

Year to date, TD Bank stock is up 16.35%. That's better than the **TSX 60** over the same period. But it's far less than TD's closest rival **RBC**. RBC stock is up 22% over the same period.

However, TD Bank stands out as a clear favourite due to two key reasons: valuation and diversification. The stock is trading at a mere 10.8 times earnings per share, while RBC trades at a price-to-earnings ratio of 13.

RBC is also much more tethered to the domestic economy. Commercial and mortgage lending in Canada makes up the bulk of RBC's book. That means the bank's fate is tied to the local economy. Meanwhile, TD Bank is much more diversified with operations in the United States that are a significant part of total revenue.

The sale of TD Ameritrade also unlocked billions in cash for Canada's second-largest bank. This cash can now be deployed in new ventures to diversify TD further. The cash allows the company to expand its product offering, acquire new tech startups that can enhance the core platform, or enter new markets.

This optionality adds value to the stock that clearly hasn't been priced in yet.

Bank stocks outlook

Canada's banks are in a particularly strong position for the near future. All of them, including TD Bank, have had a phenomenal year. This has elevated cash and net profits, which gives these banks a buffer in case the economy dips.

However, the economy isn't expected to dip. Real estate investments have hit a plateau, but house prices and mortgage borrowing is still at record highs. Meanwhile, the Canadian economy is rebounding, which means business and consumer loans should see a sharp resurgence throughout 2021 and 2022.

Any Canadian bank stock is worth investors' attention. However, the lower valuation and better diversification makes [TD Bank stock](#) slightly better, in my view.

Bottom line

Canada's banking sector is surprisingly resilient. Tight regulations, a booming real estate sector and government support has propelled the balance sheet of all major banks. However, investors have pushed these banking stocks to all-time highs, which has skewed the valuation.

TD Bank stock still looks relatively undervalued. At roughly 11 times earnings, the stock offers a bargain opportunity for investors seeking a safe haven. In my view, this undervaluation cannot persist. TD Bank stock could be a top performer in the year ahead — especially if the economic recovery continues as expected.

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