2 Undervalued Bank Stocks That Yield Over 3.5%

Description

The Canadian banking sector has been on a bullish run for a while. Almost all the Big Six players have seen more growth in the last 12 months than they saw in any one year before that during the previous decade. But a growth phase like that, while great for a company's capital-appreciation potential, is usually bad for valuation.

And one by-product of the current growth phase is that almost all the banks are slightly overvalued. However, there are two that are *relatively* undervalued and offer a modestly high yield.

The smallest of the Big Six banks

National Bank of Canada (TSX:NA) is the smallest of the Big Six, but it leads the pack when it comes to capital-appreciation potential — at least, it has for the last decade. By value, it's currently the most affordable bank of the bunch. The price-to-earnings ratio is currently 11.9, and the price-to-book ratio is at 1.9 times. It also saw one of the sharpest upward trends among the bank stocks post-pandemic and has dropped only a little from its peak.

So, if you wait a while, the stock might become more discounted and even better valued than it is now. The banking sector is expected to go through a correction phase, and a drop in the stock price will push the yield higher than the 3.5% it is now.

National Bank is one of the best growers in the sector, and at its current value, it's a great bargain, but not at its current price. If the stock dips to somewhere around $80 per share within the next couple of months or so, it would become a much better buy.

The smallest of the Big Five banks

From a market capitalization perspective, **Canadian Imperial Bank Of Commerce** (TSX:CM)(NYSE:CM) is the smallest of the Big Five banks. The bank is still riding the powerful growth wave, and it might take a serious correction phase to put the bank on its pre-pandemic growth pattern. That is *if* you can consider its pre-pandemic stock movement growth.

But the bank was one of the most generous dividend payers in the sector, and it reflects in its current 4.1% yield as well, which is still above the 4% mark, despite the stock trading at a 42% premium to its pre-pandemic price.

The price-to-earnings ratio of 11.3 is the lowest among the Big Five, so even if the bank is not undervalued per se, it's undervalued relative to the sector.

Foolish takeaway

The current growth phase and growth pace of the banking stocks have pushed them much higher than they would have been if the pandemic and the post-pandemic growth momentum wouldn't have triggered this much positive activity. But on the flip side, the two undervalued banking stocks are not offering the best dividend yield, even by their own historical standards.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:NA (National Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date
2025/08/24

Date Created
2022/01/16
Author
adamothman