2 TSX Banking Stocks to Buy in February 2022

Description

As equity markets are expected to remain turbulent in 2022, it makes sense to allocate a significant portion of your capital towards value stocks. Investors are worried about the threat of multiple interest rates hikes this year, making it expensive for companies to fund their expansion plans. Further, the steep valuations surrounding growth stocks might trigger another round of selloffs if market sentiment turns bearish.

Alternatively, banking stocks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **National Bank** (TSX:NA) are well poised to benefit from a higher interest rate environment that will drive profit margins higher.

Why should you bet on Canadian banking stocks?

Canadian banks are considered conservative compared to counterparts south of the border. But they are also fundamentally strong and have managed to create long-term wealth for investors over multiple decades. For example, after adjusting for dividends, TD Bank stock is up 297%, while National Bank has returned 317% to investors in the last 10 years.

The two companies have witnessed multiple recessions in the past, including the ongoing pandemic, the financial crisis of 2008, and the dot-com bubble. But the stocks have emerged stronger after every major dip, showcasing their resiliency and robust financials.

This sentiment is echoed by Kyle Prevost, the investing strategy expert at Million Dollar Journey. According to Prevost, “With probable interest rate rises and the evolution of the market cycle, Canadian banks are poised to outperform — even if the Trudeau bank tax becomes law. My personal favourites at the moment are TD and National Bank due to their exposure to the American and Quebec markets respectively.”

Prevost further explained that Canadian banks will benefit from wider profit margins, and the competitive advantages enjoyed by the larger players will ensure positive cash flow no matter what the economic outcomes are. Basically, the risk-adjusted prospects for these revenue generators are compelling, and their price tags are reasonable compared to growth stocks and other strong performers in the last two years.

TD Bank and National Bank also pay investors a tasty dividend

TD Bank and National Bank are blue-chip heavyweights that also pay investors a tasty dividend yield, making them attractive to income investors. TD Bank pays investors an annual dividend of $3.56 per share indicating a forward yield of 3.31%. In the last 10 years, TD has increased dividend payouts at an annual rate of 9.5%.

Comparatively, National Bank pays investors an annual dividend of $3.48 per share, indicating a forward yield of 3.35%. Since February 2012, NA has increased payouts at an annual rate of 8.9%.

So, if you invest $10,000 in each of the two stocks, you can generate $666 in annual dividends. Further, if the two companies increase dividends at an annual rate of 7% in the next 10 years, your annual payout will increase to $1,310. If the stocks are held in your TFSA these dividend gains will be exempt from Canada Revenue Agency taxes.

In addition to a steady stream of income, TD Bank and National Bank are also attractively valued. While the forward price-to-fiscal-2023 earnings multiple for TD stock is 12, the ratio for National Bank is also cheap at 10.9.

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