2 Canadian Banks Available at Attractive Valuations

Description

After delivering substantial returns over the last two years, Canadian banks are under pressure this year due to concerns over future growth. Some banking stocks have lost over 10% of their stock values compared to their 52-week highs.

Further, the Canadian government implemented a one-time windfall levy on Canadian banks on Friday. The banks and insurance companies will have to pay 15% of their last year's income above $1 billion as taxes over the next five years. The government has also raised the income tax rate on financial institutions from 15% to 16.5%. The government hopes to earn around $6.1 billion over the next five years through these initiatives.

Meanwhile, I believe the recent tax increases would have a negligible impact on banks' financials. Over the long run, these institutions can easily pass on the increased expenses to the consumers through higher fees and rising lending rates. The Canadian economy has remained firm, despite the rising inflation, thanks to its substantial exposure to the energy and mining sectors. With the Canadian economy remaining resilient, I believe the pullback in the following two banking stocks offers an excellent buying opportunity.

Bank of Nova Scotia

Amid the recent pullback, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is trading 7.8% lower from its 52-week highs. Long-term investors could utilize the correction to accumulate the stock as interest rates rise. The Bank of Canada had raised interest rates by 0.25% last month. It could increase further, given the inflationary environment. Higher interest rates could widen the spread between lending and deposit rates, thus improving the margins of financial institutions.

The company has substantial exposure to emerging markets, offering long-term growth potential. Its falling provisions for credit losses and rising loan originations bode well with its growth. Meanwhile, the company also pays a quarterly dividend, with its forward yield at 4.68%. Also, its valuation looks attractive, with its NTM (next 12-month) price-to-earnings multiple standing at 10.5. So, given the favourable business environment, growth initiatives, high dividend yield, and attractive valuation, I am bullish on the Bank of Nova Scotia.

Toronto-Dominion Bank

Second on my list is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which is looking at strengthening its presence in the United States through the acquisition of First Horizon Corporation. In February, the company announced a definitive agreement to acquire First Horizon for US$13.4 billion. The acquisition could boost the company's position in the southeastern market of the United States — an excellent fit for the company. Meanwhile, Toronto-Dominion's management expects to close the acquisition by the end of the first quarter of fiscal 2023.

The company's track record looks excellent, as it has been rewarding its shareholders for 164 years. Additionally, the company has raised its dividend at a CAGR of 11% for the last 27 years. Currently, it pays a quarterly dividend of $0.89 per share, with its forward yield standing at 3.62%. Amid the weakness in the bank stocks, Toronto-Dominion has lost over 11% of its stock value compared to its 52-week high. The correction has pulled its NTM price-to-earnings down to an attractive 11.5. Considering all these factors, I believe Toronto-Dominion would be an excellent addition to your portfolio.

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rnanjapla