2 Top Bank Stock Picks to Stash in Your TFSA

Description

The correction phase for the Canadian banks has started, and the stocks are moving rapidly towards their pre-pandemic valuations. But even if that's not the final mark, the current discount is decent enough to make the bank stocks quite attractive, especially from a dividend perspective and the capital-appreciation potential.

The more discounted you buy a bank stock with decent growth potential/history, the higher your probability of benefitting from similar growth will be.

A bank stock for dividends

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is currently offering the second-highest yield among the banking stocks, right after **BNS**. The juicy 4.67% yield results from a steady decline of the stock from its peak (roughly 17% so far) and the $0.15 dividend increase the bank introduced in the last quarter of 2021. The payout ratio is stable at 41.5%.

However, that's not the only reason to buy this banking stock right now for your TFSA portfolio. The 17% discount has already pushed the valuation of the bank down to 9.5, making it slightly undervalued compared to other banks. And the price and valuation discount will only increase as the bank stock slides down even more.

Your aim should be the bottom of the current correction phase, because if the subsequent growth is anything like the growth after the crash in the Great Recession (2009), you may experience decent growth in the next decade or so from a banking stock that's preferred for its dividends.

A bank stock for growth

When it comes to growth in the banking sector, **National Bank of Canada** (TSX:NA) is always a smart choice. The smallest of the Big Six has a highly concentrated regional/local focus, and despite the lack of international diversification, it has seen a lot of investor attention.

The growth is much better than the sector average but only slightly better compared to the two largest Canadian banks, though the difference was more pronounced in the five years preceding the crash. The bank offers a decent combination of growth potential and dividends. The current 3.9% yield is quite decent if you consider the post-pandemic growth pattern of the bank.

The price discount is slightly lower than CIBC, at 15%, but the valuation discount is a bit more pronounced. The stock is currently just 19% higher than its pre-pandemic peak, and if that is to be the full scope of the discount that the National Bank would offer, the yield will not rise much higher.

However, the main reason to choose this banking stock is its capital-appreciation potential, and for that, it’s already a bargain at the current discount.

Foolish takeaway

Even if you are only looking for undervalued stocks in the banking sector, the two stand out from the crowd. But they also offer decent growth potential *and* amazing dividends, which will increase over time, as they are both aristocrats. The combination of value and return potential makes them much more compelling buys.

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3. TSX:BNS (Bank Of Nova Scotia)
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