2 Top TSX Bank Stocks to Buy in October

Description

The sky is falling on **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) or so it seems. BNS stock has been the worst performing Big Six Canadian bank stock year-to-date. Specifically, it's down almost 27% as of this writing versus the average downside of 10.5% across its peers.

The market obviously doesn't agree with me, but I'd pick BNS stock as one of the top **TSX** banking stocks to buy for its passive income alone. Of course, it's also an undervalued stock. There's no question about that.

At $65.58 per share, BNS stock trades at approximately 7.8 times earnings, a cheap valuation characteristic of recessionary periods. This may indicate that the market has a negative outlook on the bank's focus on Pacific Alliance countries, though its core business is located in Canada like its peers.

Unlike the U.S. which has technically entered a recession with two consecutive quarters of gross domestic product decline, Canada still isn't there yet. However, we may not be too far behind because Canada is also experiencing an inverted yield curve — an indicator that tends to precede recessions.

The bottom line in these uncertain times is that BNS stock's dividend is safe. Its trailing-12-month (TTM) payout ratio is 49% of its net income to common shareholders. When the bank has experienced an earnings decline during recessions in the past, it's always maintained its dividend.

Mind you, during highly uncertain economic times, the regulator — the Office of the Superintendent of Financial Institutions — restricts BNS stock and its peers from raising dividends and repurchasing shares. This serves as a precaution to maintain a sound Canadian financial system.

BNS stock's low valuation has pushed its dividend yield up to nearly 6.3%, which is super attractive. If the stock's valuation normalizes, it could deliver awesome total returns, at a compound annual growth rate (CAGR) of about 16% annually, over the next five years. This return would double investors' money in roughly 4.5 years according to the rule of 72.

A top TSX bank stock that's the most resilient

In contrast to the underperforming BNS stock, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock has been the most resilient. RBC stock is only 6.6% lower year-to-date! This shouldn't come as a surprise considering that it's a diversified bank and has the largest market cap among its peers.

RBC has operations in 29 countries. It's also diversified across various business segments. Its 2021 revenue diversification was as follows: 37% in personal and commercial banking, 27% in wealth management, 21% in capital markets, and 11% in insurance.

Right now, at $125.45 per share, investors don't get much of a discount for RBC stock. However, risk-averse investors will have peace of mind holding these high quality and resilient shares. The top bank stock also provides a safe yield of close to 4.1%. Its TTM payout ratio is 43% of its net income to common shareholders.

The Foolish investor takeaway

So, there you have it! Patient investors can buy BNS stock in October for a +30% discount from its usual long-term valuation and enjoy a +6% yield. Alternatively, RBC stock is the go-to bank stock for investors seeking stability and top-notch quality.

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2. Dividend Stocks
3. Investing

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Date
2025/08/15
Date Created
2022/10/04
Author
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