Top Canadian Bank Stocks to Buy in October 2022

Description

A heightened uncertainty in the economy from high inflation and rising interest rates has pressured Canadian bank stocks. Here are some top Canadian bank stocks that you can consider buying this month. They're selected from the Big Six Canadian bank stocks.

The lowest-risk Canadian bank stocks

The market suggests that the top Canadian bank stocks with the lowest risk are **National Bank of Canada** (TSX:NA) and **Royal Bank of Canada** (TSX:RY). Their stocks have been the most resilient in this market downturn. Year to date, they have declined about 6% and 8%, respectively.

If you include dividend returns, they would be down 4% and 4.6%, respectively. Indeed, the two banks have achieved the highest earnings-per-share (EPS) growth rates in the last decade. Specifically, the growth rates were 9.9% and 9.5%, respectively.

As the leading bank with a diversified business, RBC stock also commands the highest premium valuation among the Big Six banks. This suggests the market views it as having the highest quality. RBC stock's long-term, normal price-to-earnings (P/E) ratio is about 12.15. It targets a medium-term EPS growth of 7-10% per year. At $123.88 per share at writing, Royal Bank trades at about 11.2 times earnings. So, conservative investors could consider buying it now and on further weakness.

National Bank's operations are more concentrated in Canada. Since the U.S. is already in a recession, and Canada is expected to enter a recession next year, the U.S. has the potential to first recovery from this recession. Therefore, it may be wiser to stick with RBC, as it's more diversified.

Top Canadian bank stocks for total returns

Investors invest to make money. The big Canadian bank stocks have delivered stable earnings growth in the long run to deliver solid total returns. So, it makes good sense to explore them to see which may be the best for total returns.

Of the Big Six Canadian bank stocks, **Bank of Nova Scotia** (TSX:BNS) has fallen the most year to date by about 27%. At $65.34 per share, it trades at only about 7.7 times earnings. In other words, it's undervalued by a third from its long-term normal valuation. The cheap stock also provides the biggest dividend of the bunch. Consequently, it has the potential to deliver the largest total return of 17.4% per year over the next five years. This assumes a 5% EPS growth rate, and the stock returns to its normal multiple.

Bank of Montreal is also discounted and can potentially deliver total returns of about 14.9% over the next five years. This is also an estimated above-average total returns.

BNS stock for current income

The big Canadian bank stocks all pay sustainable dividends. Some investors prioritize income over total returns. In this case, investors don't have to choose between the two. As mentioned earlier, BNS stock provides the largest dividend of the Big Six Canadian banks. It can also deliver the highest returns over the next five years from the help of a low valuation today. It yields 6.3% at writing. With a payout ratio of about 48% this year, the bank maintains a safe dividend.

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3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:NA (National Bank of Canada)
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Date
2025/07/20
Date Created
2022/10/30
Author
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