Missed Out on Canadian Energy Stocks? My Best Bank Stock to Buy and Hold

Description

Energy stocks have been the obvious top performers on the TSX stock market this year. Oil names like **Cenovus Energy** have been rallying all year long; they peaked in June, but are still up for any investor who bought earlier than that. If you'd invested $10,000 in CVE stock at the beginning of the year, you'd be sitting on a $16,700 position today had you held the shares. This is in contrast to the substantial loss you'd be sitting on if you'd invested in a broad market index fund.

With that being said, the oil trade is starting to get long in the tooth. Oil stocks are still cheap going by the ratio of their price to earnings and assets, but that could change if oil prices come down. In the meantime, there is one other TSX value sector that's only just starting to get moving:

Banking.

Bank stocks started rallying last month when a string of better-than-expected earnings releases from U.S. banks got people interested. Most of the U.S. banks posted large increases in net interest income, and their stocks soared after the earnings came out. Canadian banks also rallied on the U.S. earnings releases. In this article, I will explore one Canadian bank stock that could get a big lift from the U.S.'s rising financial sector.

TD Bank

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is often described as "the most American Canadian bank." It earns about 37% of its profit South of the Border, and that percentage will increase if it closes the **First Horizon National** (NYSE:FHN) deal it's working on.

What is First Horizon National?

It's a U.S. bank that is really thriving right now. In its most recent quarter, FHN did US$875 million in revenue, up 15%, and US$0.45 in earnings per share, up 9%. It was a solid showing. Unlike America's larger banks, which have big investment banking segments that are holding back their earnings, First Horizon is growing. If TD closes the deal, then FHN will add about US$1 billion in earnings to TD's bottom line.

Why TD is such a strong bank

TD has a lot more going for it than just the FHN deal. It also has a number of other advantages including.

- A high CET1 ratio. The "CET1 ratio" is a ratio of high quality assets that regulators need banks to hold, divided by total capital. TD's CET1 ratio is 15.4%, way ahead of what regulators require. So, there's no major risk of a financial crisis here.
- Strong earnings growth. In its most recent quarter, TD did 6.6% growth in adjusted earnings (that is, earnings with some adjustments made to normal accounting rules). Many other banks saw their earnings decline in the same period.
- A large investment in **Charles Schwab**. TD is the largest individual shareholder in Charles Schwab, a U.S. brokerage house that delivered strong growth in revenue and earnings in its most recent quarter. Brokerages are doing very well this year due to high interest rates, and TD is getting a piece of the action.

Overall, things are looking pretty bright for TD this year. Oil stocks like Cenovus are probably still decent investments, despite having already rallied, but diversifying into banks probably won't hurt.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:FHN (First Horizon National Corporation)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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andrewbutton