3 Bank Stocks That Are Too Cheap to Ignore

Description

Canadian bank stocks are down significantly in 2022. Investors who missed the big rally off the crash in 2020 are wondering if the banks are now undervalued and which ones are good to buy for a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolio focused on passive income or total returns.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) trades for close to $69 per share at the time of writing compared to a 2022 high around $95. The stock is down 24% on the year and trades at just above 8.2 times trailing 12-month earnings.

This is the kind of multiple you would expect to see from BNS stock during a financial crisis. It's true that a recession is likely on the way in 2023 or 2024, and Bank of Nova Scotia's large international operations located in Latin America could take a meaningful hit like the group did during the pandemic. However, the pullback in the share price appears overdone.

Bank of Nova Scotia generated solid results in the fiscal third quarter (Q3) of 2022, and the international division actually performed very well, supported by solid gains in net interest margins triggered by rising interest rates. That trend should continue, and BNS's earnings could surprise to the upside in the coming quarters.

The board increased the dividend by 11% late in 2021 year and by another 3% in 2022. The current dividend provides a yield of 6%.

CIBC

CIBC (TSX:CM) trades for $64.50 at the time of writing compared to more than $83.50 at the 2022 peak. The share price is down more than 13% this year. Investors who buy the stock at the current multiple of 9.2 times trailing 12-month earnings can get a 5% dividend yield.

Investors are concerned the large exposure to the Canadian housing market could put CIBC at risk of big losses in the next few years, as mortgage rates soar and over-leveraged property owners are potentially forced to default. If house prices fall below the value of the mortgages, CIBC and its peers could be in for a rough ride.

CIBC took steps in recent years to diversify the revenue stream through acquisitions in the United States. The American business, which is focused more on commercial banking and wealth management, provides a good hedge against potential trouble in the Canadian housing market.

In its investor presentation this summer, CIBC projected solid revenue and earnings growth, even with the anticipated economic headwinds.

TD

TD (TSX:TD) trades for $88 at the time of writing compared to $109 at the peak in February. The share price is down about 11% year to date, and TD trades at a multiple of about 11 times trailing 12-month earnings.

The stock has held up better than some of its peers, but it still looks undervalued. TD built up a large cash hoard during the pandemic and is using the funds to make two acquisitions in the United States to drive future growth. The purchase of **First Horizon** for US$13.4 billion will make TD a top-six bank in the American market. TD is also buying **Cowen**, an investment bank, for US$1.3 billion.

TD raised the dividend by 13% for fiscal 2022. Another big increase should be on the way for next year. Investors can currently get a 4% dividend yield.

The bottom line on top bank stocks

Bank of Nova Scotia, CIBC, and TD all pay attractive dividends that should continue to grow. If you have some cash to put to work in a TFSA or RRSP portfolio, these stocks appear attractive today and deserve to be on your radar.

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:TD (The Toronto-Dominion Bank)

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