



2 Best Banking Stocks in Canada to Buy in December 2022

Description

Like it or not, Canadian banks are the glue that keeps our economy humming. From loans to investment products, the products they offer help each of us no matter what stage of life we're in. But what if the banks could help us even more? Clearly, they make tons of money for themselves and for their shareholders. In fact, banking stocks have been some of the best performers over the long term.

Now, let's ensure that we all take a piece of that pie and share in these profits. Here are the two best banking stocks to buy today.

Bank of Nova Scotia: The cheapest banking stock with the most upside and highest yield

Bank of Nova Scotia ([TSX:BNS](#)) is among the banks with the largest international exposure. In fact, roughly 20% of its earnings comes from international banking. Obviously, these earnings have a different risk/reward profile than traditional North American earnings. At times, the relative risks can be too high, but at other times — like today — this diversification is exactly what's needed.

While Bank of Nova Scotia stock is up 18% versus 10 years ago, it's down 29% from its January 2022 highs and down 19% versus five years ago. During this five-year timeline, earnings per share (EPS) grew 19% to \$8.50 in 2022. This dismal performance relative to other Canadian banks has left a mark on BNS stock. For example, it trades at [overly depressed multiples given its potential growth profile](#). Yet Bank of Nova Scotia has similar operating and profit margins as the big two Canadian banks — that is, TD Bank and Royal Bank. Also, BNS's dividend yield is significantly higher than its peers at 6.03% versus the industry average of 4.57%.

Finally, the bank dramatically reduced its risk profile recently. This was done by exiting the riskier international markets, such as Egypt and Turkey. Instead, the bank is focusing on Latin American countries — countries such as Mexico, which has a growing middle class and banking penetration of only 35%.

TD Bank stock: One of the top two Canadian bank stocks

Toronto-Dominion Bank ([TSX:TD](#)) is one of Canada's biggest banks. In fact, it's one of Canada's top two banks and North America's top five banks. Thus, TD Bank is trading and usually does trade at a premium to its peer group. In fact, right now TD stock has higher multiples than all Canadian banks, except **Royal Bank**.

TD Bank stock has also fallen sharply from its highs this year, albeit not as much as BNS stock. In fact, it's fallen a much less severe 17% from its 2022 highs. Also, on a five-year basis, TD Bank stock is actually 23% higher. So, this is a much different story than Bank of Nova Scotia's story. [It's one of consistency, exceptional execution](#), and enviable operating practices.

For example, TD Bank has always had a very conservative underwriting practice. This has allowed the bank to avoid many risks that have hit others, such as mortgage meltdowns and excessive credit losses. Also, TD Bank has built its deposit franchise over the years to become a leader. This extra capital has benefitted the bank greatly over the years, and it continues to do so today.

In TD's latest quarter, adjusted EPS came in at \$2.18, 4% higher than last year. This was driven by higher interest rates, which brought TD's net interest margin 11 basis points higher to 2.7%. Looking ahead, TD expects to continue to benefit from rising interest rates.

Risks ahead include the weakening consumer and higher credit losses

Yet there are certainly risks here that TD Bank investors as well as banking stock investors in general, should be watching. For example, provisions for credit losses are rising. At TD, they were up four basis points sequentially in the fourth quarter. Furthermore, they're expected to continue to increase to as high as 45 basis points in 2023 compared to 14 basis points in 2022. It's a dramatic rise, but the bank did note that gross impaired loans are stable and are at cyclical lows.

All in all, TD Bank stock and BNS stock are very well positioned heading into the coming years.

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