3 Bank Stocks That Are Too Cheap to Ignore

Description

The meltdown in the share prices of some Canadian bank stocks in the 2022 market correction is giving contrarian investors a chance to buy the banks at cheap prices for portfolios focused on passive income and total returns.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) is down more than 25% in 2022 at the time of writing. The shares currently trade near $65 compared to the 2022 high of $95. This is a huge drop for a company that actually generated stronger adjusted earnings in fiscal 2022 than it did in 2021, which was a good year for the bank.

At at multiple of just 8.1 times trailing 12-month earnings, the stock appears to be priced for a financial crisis. This could potentially occur in the next 12-18 months if interest rate hikes in the United States and Canada end up triggering a deep and long recession, but the likely outcome for the economies in the two countries is a short and mild downturn.

Investors might be concerned that Bank of Nova Scotia's international operations located primarily in Mexico, Peru, Chile, and Colombia could take a large hit if the global economy tanks. Again, this is possible, but these countries also rely heavily on oil and copper prices, which could remain elevated, even if economic activity slows.

Investors who buy BNS stock at the current price can get a 6.3% dividend yield.

CIBC

CIBC (TSX:CM) trades for $55 at the time of writing compared to more than $83 at the 2022 peak. For the year, the share price is down 26%.

CIBC told investors at the June meeting that it expects earnings to grow by at least 7% per year over the medium term, led by growth in the U.S. commercial and wealth operations. Time will tell if that proves to be the case, but the market doesn't appear to be convinced, even after CIBC raised the dividend twice this year.

The Canadian housing market is potentially the cause of investor concern. CIBC has a large Canadian residential mortgage portfolio relative to its market capitalization. If rising mortgage rates combine with a surge in unemployment, the housing market could tank as people default or are forced to try to sell their properties. In a scenario where the banks get stuck trying to unload properties worth less the mortgages owed, there would be pain, and CIBC would probably be hit harder than its peers.

Again, this is an extreme situation that is not expected to occur.

At just 8.25 times trailing 12-month earnings, CIBC stock also appears oversold and now offers a 6.2% dividend yield.

TD

TD (TSX:TD) has fared better than the other two this year. The stock is down about 12% in 2022, and at $88.50 the share price is above the low around $77 that it hit in July but still well off the 22 high of $109.

TD generated fiscal 2022 earnings that comfortably beat the 2021 results. In the fourth-quarter report, the bank said it is targeting 7-10% earnings growth in 2023, as long as there isn't a major macroeconomic surprise.

TD built up a war chest of cash during the pandemic and is using a good chunk of the money to make two acquisitions in the United States to drive future revenue and profit growth.

TD trades at an attractive 9.25 times trailing 12-month earnings and provides a 4.4% dividend yield.

The bottom line on cheap bank stocks

Bank of Nova Scotia, CIBC, and TD all pay attractive dividends that should continue to grow. Risks remain, but the stocks appear cheap right now and deserves to be on your radar for a contrarian portfolio focused on passive income and total returns.

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3. TSX:TD (The Toronto-Dominion Bank)

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aswalker