



Which Canadian Bank Is the Cheapest?

Description

When investing in the banks, it is important not to pay too much, just like in any other industry. But which banks are the cheapest? Well, it depends which measure is used.

Below is a table that shows the price/earnings and price/book multiples of the banks. One focuses on how much the banks make, while the other focuses on how much the bank has. And the comparison yields some interesting findings.

Company	Price/Earnings	Price/Book
Royal Bank of Canada	13.0	2.3
TD Bank	14.4	1.9
Bank of Nova Scotia	12.4	1.9
Bank of Montreal	11.6	1.6
CIBC	10.4	2.3

CIBC: The cheapest or the most expensive?

CIBC's ([TSX:CM](#))([NYSE:CM](#)) strategy can best be described as “back to basics.” After getting burned badly by the U.S. subprime crisis, CIBC is placing a bigger focus on operations in Canada. It is focusing less on international markets than all four of the other big banks. This is reflected in the multiples above.

Of all the banks, CIBC's price/earnings multiple is the lowest – investors are simply asking, “Where's the growth?” But at the same time, Canadian banking is very high return. For that reason, CIBC's price/book multiple is the highest among all the banks.

So CIBC makes plenty of money, but will have trouble growing its bottom line. Conservative investors may want to consider this bank for their portfolio (oddly enough, this is a complete role reversal for the bank).

TD: Plenty of growth, but it's in the United States

TD ([TSX:TD](#))([NYSE:TD](#)) has the highest price/earnings multiple among the big banks. This is because unlike CIBC, TD is expanding rapidly in the United States, which provides plenty of room for growth.

But the United States is a very competitive market, so returns are very hard to come by. For this reason, its price/book multiple is well below that of CIBC.

Bank of Nova Scotia: Probably the best deal

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is the most focused on emerging markets. This has not been good for the company's stock price in recent months, which has made the multiples much more attractive.

The bank's multiples are right in the middle of the pack. But given its opportunities to grow in emerging markets, investors are likely getting a bargain. This should not be particularly surprising, given that the bank's stock price has performed the worst of all the banks over the past year. This is where astute investors would be wise to pick up some shares while they're cheap.

Foolish bottom line

In the end, the best bank to choose depends on what kind of bet you want to make. Looking for a safe bet? CIBC is likely the best option. If the goal is to bet on a recovery in the United States, then TD would be the best choice. Or if someone is looking for a bargain in emerging markets, then Bank of Nova Scotia is the answer.

CATEGORY

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

2025/09/14

Date Created

2014/03/25

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