How Canaccord Genuity Rates Canada's Top Banks

Description

One of Canada's lesser known financial institutions, **Canaccord Genuity** has just initiated coverage on Canada's top six banks. Three of them — **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), **CIBC** (TSX:CM)(NYSE:CM), and **Royal Bank** (TSX:RY)(NYSE:RY) were rated "buy". The other three were rated "hold". As could be expected, none were rated "sell". So what makes the first three choices so much better than the second three?

Bank of Nova Scotia: High growth prospects, battered share price

There is a very compelling case for buying Bank of Nova Scotia shares. Canada's most international bank has a strong presence in emerging markets, especially in Latin America. New CEO Brian Porter has recently indicated that he will focus international banking on four countries in particular: Mexico, Colombia, Peru, and Chile. These countries are not only performing very well, but also have significantly underbanked populations, giving Bank of Nova Scotia an excellent opportunity to grow earnings.

Due to a recent sell-off in emerging markets stocks, Bank of Nova Scotia shares have not performed particularly well. In fact, they have performed worse than any other bank in the top six. This may have given value-focused investors an opportunity.

CIBC: Cheap, but struggling for growth

Ever since the financial crisis, CIBC has done an excellent job getting back to the basics: plain old Canadian banking. This of course has made CIBC especially profitable and stable relative to its peers.

There are drawbacks to CIBC's strategy. One is that growth is hard to come by. The other is that the bank may be overexposed to Canada's real estate market. As a result, CIBC's shares trade at just 10.3 times earnings. Only National Bank trades at a lower multiple.

Royal Bank: One of the world's leading banks

Royal Bank is not only Canada's largest bank, but Canada's largest company. It is the world's sixth largest wealth manager and its Capital Markets business is number 10 globally. Unlike the American and European banks, RBC survived the financial crisis relatively well. This has allowed RBC to make gains as the rest of the world's banks retreat and repair themselves.

Any patterns?

Oddly, the three banks all have branches in the Caribbean, although this is surely a coincidence. But one thing stands out a lot more: both banks with presences in the United States (**TD** and **Bank of Montreal**) are off the buy list.

There is a strong argument for this. Even though the U.S. economy is performing a lot better, the environment south of the border is very competitive, making profits hard to come by. Both of these banks have yet to prove that great returns can be achieved in the United States. Until they do, it looks like Canaccord will not be recommending them.

There are also concerns surrounding National Bank. One is that banking is a scale business, meaning it's an advantage to be big. There are a lot of fixed costs, such as technology and regulatory costs, that are more easily handled by the biggest banks, putting National Bank at a disadvantage. Secondly, over two-thirds of loans are in Quebec. So if anyone is looking to bet on the Quebec economy, this may be the best way. But not many people are.

Foolish bottom line

One should never rely only on sell-side analysts like those at Canaccord for making investment decisions. But their recommendations can have some interesting insights, and can be a great place to start.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:NA (National Bank of Canada)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

Category

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