Which Canadian Bank Should You Buy?

Description

When building a Canadian equity portfolio, many investors start by looking at the big five banks. And there are many reasons for doing this. They make plenty of money, face limited competition, and are very well-capitalized.

It's no fluke that so many professionally managed funds have a Canadian bank as its top holding.

But which bank is the right one? Well, it depends on what kind of bet you want to make. Below we take a look at each of them individually.

RBC

Royal Bank of Canada (TSX: RY)(NYSE: RY) is not only Canada's largest bank, but also the country's largest company overall, with a market capitalization of $116 billion.

RBC has Canada's largest Canadian banking business, responsible for over half of its net income last year. But what really separates RBC is its Capital Markets and Wealth Management divisions.

These businesses can be very volatile, with earnings often determined by the stock market. And RBC has built one of the largest global operations in both of these areas. So if you're looking to make a general bet on the global economy, this is a good way to do it.

TD

Toronto-Dominion Bank (TSX: TD)(NYSE: TD) is Canada's second largest bank, and like RBC has been performing exceptionally well.

But unlike RBC, TD is much more of a retail bank, which helps keeps earnings much smoother. TD is also placing a big bet on the United States, where it has a larger branch network than it does in Canada. Unfortunately, the banking environment down in the USA isn't ideal right now.

But if the economy continues to recover, and interest rates rise, then TD will benefit. So if you'd like to place a bet on the U.S. economy, TD is the way to go.

The Bank of Nova Scotia

The Bank of Nova Scotia (TSX: BNS)(NYSE: BNS) is easily Canada's most international bank, with roughly 50% of earnings coming from outside of Canada.

Most of the bank's international operations are in Latin America, and recently CEO Brian Porter said the bank would focus primarily on Mexico, Colombia, Peru and Chile. These countries all have healthy, growing economies, as well as under-banked populations.

So Bank of Nova Scotia should have plenty of room to grow earnings. And if you're looking for some emerging markets exposure in your portfolio, this is a great way to find some.

The Bank of Montreal

The Bank of Montreal (TSX: BMO)(NYSE: BMO) has not been as strong a performer as its larger peers, and its Canadian banking business is not as profitable. But there are a couple of reasons to take a look at the shares.

One is the company's bet on the U.S. Midwest. This is a region that has been hit hard in the past, but is showing some promise, partly due to the resurgence of U.S. manufacturing.

Secondly, BMO's shares are arguably the cheapest of the big five banks, trading at only 1.8 times book value.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX: CM)(NYSE: CM) has been called the bank "most likely to run into a sharp object". And for good reason — whenever there's a big blow-up, such as the Enron fiasco or the financial crisis, CIBC always seems to get caught in the middle.

But the bank has gone back to basics, and is now focusing primarily on Canadian banking. In fact last year 83% of net income came from Canada.

This ironically makes the bank more stable than its peers, and more profitable too. And if you're looking to make an all-in bet on Canada, this bank belongs in your portfolio.

CATEGORY

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TICKERS GLOBAL

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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5. TSX:TD (The Toronto-Dominion Bank)

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