Don’t Know Which Bank to Buy? Just Look to the Caribbean

Description

The Caribbean may be a favourite destination for Canadians, especially in the winter, but it has mostly been a nightmare for Canadian banks. The problem has been quite simple: after the economic crisis hit, tourism to these countries collapsed. And the recovery has been very sluggish. As a result, borrowers such as hotel developers have had trouble repaying loans, leading to big losses for the banks.

However, there are still reasons to like each of the three banks with operations in the region: **Royal Bank of Canada** (TSX: RY)(NYSE: RY), **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS), and **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM). Below, we take a look at why.

RBC: Not even a flesh wound

RBC has actually been operating in the Caribbean since the 19th century, and doubled down on the region in 2007, when it decided to acquire RBTT Financial Group for $2.2 billion. Of course, this was horrible timing.

RBC’s experience in the Caribbean since then has been awful. The Jamaican operations are a perfect example. After racking up roughly $90 million in losses over four-and-a-half years, RBC sold its Jamaican business for $90 million, incurring another $60 million hit. Even once the sale closed, the news doesn’t get much better — over 11% of loans outstanding in the Caribbean are impaired. In Canada, that figure is 0.55%.

That being said, RBC’s Caribbean business is just a tiny slice of the overall pie. For example, even that $2.2 billion purchase price for RBTT amounts to roughly $1.50 per share. So these troubles should not stop you from buying RBC’s shares. Especially since it’s been succeeding at everything else.

Scotiabank: Holding strong

Scotiabank’s experience in the Caribbean has also been a struggle. The region’s losses are essentially canceling out income growth in other regions. As a result, international income is stuck at just over $400 million per quarter. This should drive one point home: The Caribbean is much more important to

Scotiabank than it is to RBC (or CIBC, for that matter).

That being said, Scotiabank still has a lot going for it. It is Canada's most international bank, and as a result has a big presence in fast-growing emerging markets. And its stock trades at a discount to its peers. So if you're willing to wait out some ailing economies in the Caribbean, this is a great long-term investment.

CIBC: Yet more bad timing

Like RBC, CIBC had horrible timing when committing to the region. In 2006, it paid roughly $1 billion to double its stake in FirstCaribbean International Bank, a transaction that gave CIBC majority control. And yet again, this did not turn out well. Just this year, CIBC recorded a $420 million writedown on its Caribbean operations, and recorded another $123 million in loan losses.

But like RBC, these losses don't make a huge dent, amounting to just over $1 per share. And the rest of the bank (almost all of which operates domestically), is doing just fine.

So why should you buy these banks? Well, first of all, their Caribbean operations are still just a small part of the big picture. Secondly, these banks don't own branches in the United States, another very difficult region.

Of course, there's a lot more to the Canadian banks story. You can get more information in the free report below.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:RY (Royal Bank of Canada)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CM (Canadian Imperial Bank of Commerce)
6. TSX:RY (Royal Bank of Canada)

Category

1. Bank Stocks
2. Investing

Date
2025/07/23
Date Created
2014/10/21
Author
bensinclair