



## Are the Canadian Banks Really in Trouble?

### Description

There is no shortage of warning signs for the Canadian banks.

Economic headwinds and technological threats are regular topics of discussion in the media, and at the banks' own investor meetings. Yet amid all the doom and gloom, the banks continue to deliver solid results.

If the banks are truly in for prolonged period of rough times, it might be time to get out, but how can investors know if things are really going to get that bad?

Let's take a look at the current situation to see if we can clear the air a bit.

### Cost-cutting efforts

Restructuring announcements started last fall and continue to emerge at a regular clip as a slowing economy, low interest rates, and competitive threats force management at all the banks to look for ways to trim expenses and drive more revenue from stronger segments.

Last year **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) came out with the first big announcement, taking a \$451 million restructuring charge as it launched a plan to eliminate 1,500 jobs and drive more efficiency into its international and Canadian operations. Recently, the bank said it expects to exceed the \$150 million cost-cutting target it had set for the Canadian side of the business.

Shortly after Bank of Nova Scotia's big surprise last November, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) announced it was shutting down some international wealth management offices in an effort to refocus on major financial centres where it has competitive strengths. For most of this year, Royal Bank of Canada has been relatively quiet on the restructuring front.

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) had its turn in the spring, saying it would take a pre-tax charge of \$337 million for restructuring and overall productivity changes designed to make the company more nimble in a tough environment. According to a recent *Reuters* report, Toronto-Dominion Bank is now cutting hundreds of jobs after the completion of an in-depth review of its operations.

**National Bank of Canada** ([TSX:NA](#)) hopped on the bandwagon at the beginning of this month, announcing a surprise \$64 million charge to be taken in the fourth quarter as it cuts as many as 400 jobs in an effort to step up its game “in an environment of low economic growth and high technological transformation.”

Not to be outdone, **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) said on October 7 that it will book a restructuring charge of as much as \$200 million in the fourth quarter, and more charges could be on the way as the company targets cost savings of \$600 million by 2019.

This all sounds like bad news, but it could actually turn out to be just fine for investors.

### Earnings strength

The Canadian banks are very good at delivering earnings growth in a weak environment, and that's why they are restructuring their businesses.

Most of the companies have increased their dividends this year, so the outlook in the C-suites can't be all that bad. Toronto-Dominion's CEO Bharat Masrani recently told investors the bank has “numerous levers” it can use to grow earnings by more than 7% over the medium term in the Canadian retail operations.

If revenue isn't high enough, the banks simply make it up on the other side of the equation. There is a limit to how much fat can be cut, but the sector is just getting started and there is a lot of room to take out non-revenue-generating expenses. At the same time the banks are all investing in technology that helps initiate more revenue outside of the branches.

### Should you buy the banks?

As long-term investments, the Canadian banks are solid picks, but the companies must be smart about the way they defend their kingdom against the onslaught of mobile payment services from Silicon Valley.

So far, it looks like the banks are staying ahead of the curve by partnering with financial technology companies.

Much of the current cost-cutting announcements affect the legacy operations, but the other side of the story is strong hiring and investments in areas that will enable the banks to remain competitive as the market evolves.

I wouldn't dump your banks shares just yet. In fact, you might want to buy more if the sector pulls back again.

### CATEGORY

1. Bank Stocks
2. Investing

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

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