Recent Growth of U.S. Banks Makes Canadian Banks Look Undervalued

Description

Use the recent earnings growth in U.S. Banks as an indicator to purchase more shares of **Bank of Montreal** (TSX:BMO)(NYSE:BMO), **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). Although the latest earnings outlook for Canadian banks may have weakened, their balance sheets still remain strong and, paired with stable dividends, they will be the first to benefit from growing optimism of the U.S. banking sector and U.S. consumer.

U.S. growth potential

It's not only U.S. banks that are seeing the early signs of gains in the U.S. economy. If you look at the recent Q2 2016 results for Canadian banks, Toronto-Dominion Bank boasted a 15% increase in its U.S Retail business year over year, which is approximately 25% of its total portfolio. Bank of Nova Scotia recorded double-digit gains in net income from its global banking division, while Bank of Montreal's U.S. Personal & Commercial Banking division recorded a whopping 27% increase in net income year over year.

It's not just these banks that realize the potential of the U.S. consumer. Just recently**, Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) purchased Chicago-based PrivateBancorp Inc. for $3.8 billion to expand its wealth management business.

Wells Fargo expands into Canada

The mood in U.S. banks has begun to reverse as confidence in domestic earnings forecasts grow, and favourable stress test results have some banks looking outside their borders for growth opportunities.

Recently, **Wells Fargo & Co** (NYSE:WFC) announced plans to expand into the Canadian market through the purchase of financial assets from GE Capital, viewing Canada as a priority market with expected double-digit profit and growth targets. The assets purchased were a part of GE's North American portfolio that included the distribution and vendor finance businesses from GE Capital, totaling about $3 billion and approximately 400 employees.

GE Capital's financial business in Canada was primarily focused in commercial banking, lending to midcap businesses, so it's unlikely to have any effect on the bottom line of Canada's Big Five banks.

Unlike its U.S. division, CIBC has no retail position in the Canadian market. CIBC chief executive officer Victor Dodig said on a conference call, "What we're trying to achieve for our shareholders and for our clients is to have a business with a more diversified earnings stream than just relying largely on the Canadian market."

Its time for investors to start adopting a less risk-adverse mood and begin to position themselves in companies that are currently exceeding earning targets and are positioned to profit off the growing U.S. economy.

Which bank should you choose?

With 25% of its total portfolio returns driven by its U.S. operations, Toronto-Dominion Bank will not disappoint. U.S. domestic demand will continue to grow, supported by a healthy labour market and low energy prices, while its Canadian operations will continue flourish due to its leading retail banking business. According to JD Power, Toronto-Dominion Bank received top awards in its 2015 Canadian Retail Banking Satisfaction Study.

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1. Bank Stocks
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1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:TD (The Toronto-Dominion Bank)
5. NYSE:WFC (Wells Fargo)
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