

Ranking the Big Five Canadian Bank Stocks for 2017

Description

Canadian banks make for fantastic core holdings for any investor that seeks safety, a high dividend, and long-term capital appreciation. Last year was a huge year for the Big Five banks, as each member saw double-digit returns. There's a ridiculous amount of upward momentum, and many pundits believe that the party could be ending soon, but I think there's still plenty of upside left for the banks.

In ranking the Big Five, I considered valuation, the ability to grow earnings over the next few years, and risk management.

Let's count down!

5. Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#))

Last on my list is Canadian Imperial Bank of Commerce. The valuation, amount of risk, and limited upside relative to its peers in the Big Five are my reasons for ranking this company last.

The company is overexposed to the Canadian market and has struggled to expand to an international scale relative to its peers. The Canadian economy is highly sensitive to fluctuating prices of commodities like oil and gas relative to the more stable U.S. economy, which is expected to get a boost under President Trump's new policies.

The stock yields a whopping 4.4%, which is the most of the Big Five. But I don't think the extra yield is worth the higher risk.

Many pundits believe a Canadian housing correction could be on the horizon. If such a correction did happen, Canadian Imperial Bank of Commerce would get hit the hardest because it has the most uninsured mortgages of all the Big Five banks.

4. Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#))

Bank of Montreal has been expanding into the U.S. by leaps and bounds over the last few years. The U.S. segment will be a huge driver of earnings going forward thanks to a strengthening U.S. economy. The company continues to make smart deals south of the border, and we can expect more of the same down the road.

The company has had one of the weakest ROEs of its peers at 11.98% over the last 12 months. This means the company is not as efficient at turning its initiatives into profits as its peers.

The company is also pricey with a price-to-earnings multiple of 14.3, which is much higher than the company's five-year historical average value of 11.4. The dividend yield is just 3.56%, which is much lower than the company's average yield of 4%.

3. Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#))

Royal Bank of Canada is the biggest of the Big Five. The company has performed well domestically, but it has made the effort to grow into the U.S. as well through strategic acquisitions.

The company has had an attractive ROE of 16.66% over the last 12 months, which is very attractive.

The stock trades at a 2.2 price-to-book multiple, which is in line with historical averages. The company is fairly valued and offers a 3.5% dividend yield.

2. Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#))

Bank of Nova Scotia has the best international division of the Big Five. The company has over 14 million international customers, and this number is expected to soar as the company continues to consolidate a fragmented international banking market. I believe the international segment will propel the stock higher in 2017 and beyond.

The management team also has a fantastic expense-management strategy, which will improve efficiencies in the long run.

The stock currently yields a 3.72% with a cheap price-to-book multiple of 1.8, which is in line with historical averages. I believe the stock trades at a discount to its intrinsic value when you consider the upward momentum the international segment will provide.

1. Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#))

Toronto-Dominion Bank has the largest exposure to the U.S. of the Big Five. The company will be riding some huge tailwinds as the U.S. economy strengthens this year.

The risk-management strategy is also top-notch, and the company will be able to grow its dividend even if the housing market collapsed tomorrow.

The stock yields just 3.26%, which is the lowest of the Big Five, but I believe the dividend-growth rate will be the highest of its peers over the next few years.

Conclusion

If you're a long-term investor, you can't go wrong by investing in any of these banks. Pick one or more of these dividend-growth superstars and hold them forever.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)

5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
7. TSX:BNS (Bank Of Nova Scotia)
8. TSX:CM (Canadian Imperial Bank of Commerce)
9. TSX:RY (Royal Bank of Canada)
10. TSX:TD (The Toronto-Dominion Bank)

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Date

2025/09/13

Date Created

2017/02/06

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