



Which of the Big 5 Banks Is the Best Buy Today?

Description

The Bank of Canada affects short-term interest rates by hiking or reducing the overnight rate target. In turn, large banks borrow and lend overnight funds to one another at the overnight rate.

The higher the rate the large banks borrow and lend to each other at, the higher the rate of other loans, such as commercial loans, consumer loans, and mortgages. So, rising interest rates will benefit the Big Five banks because the banks will have higher net interest margins.

The banks will be reporting their third-quarter results in the next week or so, starting with **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) on August 23. However, the Bank of Canada just hiked the overnight rate target by 0.25% to 0.75% in July.

So, it's going to take some time for the hike to take effect and make an impact on the bottom lines of the big banks. Moreover, the overnight rate is still a long way off from the 10-year high of 4.5%.

Earnings season is a good way to get in on the quality banks if we see any dips. But as of their current valuations, which bank should you consider today?

Royal Bank

Royal Bank trades at ~\$92 per share and offers a yield of 3.8%. The bank trades at a reasonable multiple of ~12.5 and is expected to grow its earnings per share by 5.8-6.7% per year for the next three to five years.

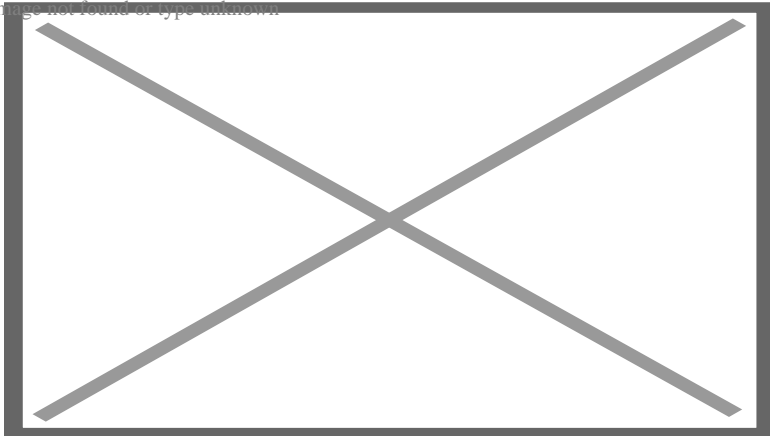
Thomson Reuters has a mean 12-month target of \$102 on the stock, which represents upside potential of ~10.8%, or near-term total returns of ~14.6%.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) trades at ~\$64.30 per share and offers a yield of 3.7%. The bank trades at a reasonable multiple of ~12.3 and is expected to grow its earnings per share by 8.2-9.5% per year for the next three to five years.

Thomson Reuters has a mean 12-month target of \$71.40 on the stock, which represents upside

potential of ~11%, or near-term total returns of ~14.7%.

Image not found or type unknown



Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) trades at ~\$77.10 per share and offers a yield of ~3.9%.

The bank trades at a reasonable multiple of ~12 and is expected to grow its earnings per share by 6.8-9.7% per year for the next three to five years.

Thomson Reuters has a mean 12-month target of \$85.30 on the stock, which represents upside potential of ~10.6%, or near-term total returns of ~14.5%.

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) trades at ~\$91.60 per share and offers a yield of ~3.9%. The bank trades at a reasonable multiple of ~11.6 and is expected to grow its earnings per share by 4.8-7.5% per year for the next three to five years.

Thomson Reuters has a mean 12-month target of \$102 on the stock, which represents upside potential of ~11.3%, or near-term total returns of ~15.2%.

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) trades at ~\$106.50 per share and offers a yield of ~4.7%. The bank trades at a reasonable multiple of ~10 and is expected to grow its earnings per share by 2.4-4.7% per year for the next three to five years.

Thomson Reuters has a mean 12-month target of \$120 on the stock, which represents upside potential of ~12.6%, or near-term total returns of ~17.3%.

Investor takeaway

The Big Five banks will all benefit from rising interest rates. They're all trading at fair valuations based on their normal multiples. However, investors looking for the highest near-term returns should consider Canadian Imperial Bank of Commerce, which offers the highest yield and estimated returns in the next 12 months based on the street consensus.

If you have a longer investment horizon, you should consider Toronto-Dominion Bank and Bank of Nova Scotia for their higher growth over the medium to long term; buy the former for greater exposure to the U.S. economy and the latter for greater international exposure.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

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)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/10

Date Created

2017/08/23

Author

kayng

default watermark