

Top Banks to Buy Low Ahead of Q1 Earnings

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) kicked off bank earnings season with the release of its first-quarter results on February 22. The stock closed the trading day 0.39% in response. Shares have dipped 4.5% in 2018 thus far.

In the first quarter, CIBC reported net income of \$1.32 billion compared to \$1.40 billion in Q1 2017. Some experts and analysts were concerned that [earnings had plateaued in 2017](#) and that rising interest rates and new OSFI mortgage rules would be a challenge for large banks to start the year. CIBC posted a 19% decline to \$656 million in net income in its Canadian Personal and Small-Business Banking segment. This was mostly due to higher spending on strategic initiatives, and credit performance was actually quite strong in the first quarter.

CIBC continued to see strong growth in its U.S. Commercial Banking and Wealth Management segment, as net income soared 362% year over year to \$134 million. The bank also hiked its quarterly dividend to \$1.33 per share from the previous \$1.30 per share.

Royal Bank of Canada also released its first-quarter results today. Next week, the remaining big Canadian banks will release Q1 earnings. **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) will release earnings on February 27; **National Bank of Canada** will release them on February 28; and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) will release them on March 1.

Should you pull the trigger on any ahead of first-quarter results?

TD Bank continues to be my top pick in 2018. Shares have declined 0.6% in 2018 as of close on February 22, and the stock is up 5.4% year over year. TD Bank is expected to beat its adjusted earnings per share in Q1 2017, but leadership has warned that due to a one-time charge from U.S. tax reform, the bank will see earnings reduced by \$400 million. In the long term, TD Bank leadership was [bullish](#) on the impact that tax reform will have on its earnings.

BMO has dropped 1.9% in 2018 and is down 2.6% year over year. It also boasts a sizable U.S. footprint that should encourage investors, as the corporate tax rate was dropped from 35% to 21%. BMO is unique among its peers as the first major Canadian bank to make a foray into the Canadian cannabis industry. Recreational legalization is expected to hit in the late summer. In Q4 2017, BMO saw its fourth-quarter profit fall, but it hiked its quarterly dividend to \$0.93 per share, representing a 3.7% dividend yield.

Bank of Nova Scotia has declined 4.1% in 2018 thus far. Shares are down 4.9% year over year. In 2017, Bank of Nova Scotia saw net income rise to \$8.24 billion compared to \$7.36 billion in 2016. It hiked its annual dividends by 6% to \$3.05 per share, representing a 4% dividend yield. On February 12, Bank of Nova Scotia agreed to pay \$950 million to purchase Jarislowsky Fraser Ltd., an independent investment firm that boasts about \$30 billion assets under management.

The S&P/TSX Index has dropped 4.3% to start 2018. Positive bank earnings have the potential to boost investor sentiment, as Canadian economic growth remains strong.

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