



Which of the Big 5 Banks Performed Best in Q1?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)), **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) are the five biggest Canadian banks.

CIBC was the first to report its quarterly results on February 22, and TD was the last one to report on March 1. A strong economic climate and strong interest rates helped the Big Five achieve strong performance in their first quarter. Earnings were boosted by gains outside the borders. Let's look at the results of the five banks to see which one performed better.

	CIBC	RBC	BMO	BNS	TD
Revenue (in billions)	\$4.46 (+7%)	\$10.8 (+12%)	\$5.68 (+5%)	\$7.09 (+3%)	\$9.36 (+2.6%)
Net income (in billions)	\$1.33 (- 5.6%)	\$3.01 (flat)	\$0.97 (- 35%)	\$2.34 (+16%)	\$2.35 (- 7%)
Adjusted EPS	\$3.18 (+10%)	\$2.05 (+12%)	\$2.12 (- 7%)	\$1.87 (+18%)	\$1.56 (+17%)
Estimates	\$2.83	\$1.99	\$2.06	\$1.68	\$1.46
Dividend (per quarter)	\$1.33 (+2.3%)	\$0.94 (+3.3%)	\$0.93 (flat)	\$0.82 (+3.8%)	\$0.67 (+11.7%)
Yield	4.6%	3.8%	3.9%	4.2%	3.6%

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By looking at these results, you can see that all banks managed to increase their revenue — with RBC leading the group with a 12% increase — but only Bank of Nova Scotia increased its net income. The other banks saw a decline in their net income due to charges related to U.S. tax reform.

Bank of Nova Scotia was the least impacted because its deferred-tax assets are in Canada and other jurisdictions.

BMO, whose U.S. operations contributed about a quarter of earnings, was the most impacted, with a write-down of \$425 million. BMO results were also skewed by comparisons against earnings from the first quarter of 2017, which included a \$133 million gain from sales of assets and loans.

U.S. tax reform, by lowering the tax rate, will provide tax savings that will eventually provide a substantial lift to banks' profits.

While Bank of Nova Scotia doesn't have a significant retail banking presence in the U.S., its chief executive Brian Porter is confident that the markets of Peru, Chile, Colombia, and Mexico will experience positive knock-on effects.

This was a strong quarter overall for the Big Five banks, which all beat analysts' estimates. CIBC had the strongest beat, with an adjusted EPS \$0.35 higher than analysts' estimates. BMO, despite showing the weakest results, beat expectations by \$0.06.

BMO was the only bank to not raise its dividend. TD raised its dividend the most, with an 11.7%

increase. CIBC still has the highest dividend yield, but this may not last, as it increased its dividend by only 2.3%.

Which bank had the best Q1, and which one is a better buy?

On my point of view, Bank of Nova Scotia had the best quarter, mostly because it was less impacted by U.S. tax changes than the other banks, being less present in the U.S.

Bank of Nova Scotia is [more international](#) than the other banks, with operations in about 50 countries, so it offers diversification and interesting growth opportunities. This bank is also very effective at cost control. Its profit margin of 33% is the highest of the Big Five.

While Bank of Nova Scotia had the best quarter, I think that TD is a better buy. TD has a significant presence in the U.S. and is expected to [benefit the most of the reduced tax rates](#) with an estimated \$300 million expected to be added to its profit this year.

TD's earnings are expected to grow at an average annual rate of 10.5% over the next five years, which is the strongest growth rate among the Big Five. This strong earnings growth will allow TD to keep increasing its dividend fast.

TD is also the most undervalued relative to growth, with a PEG of 1.17, so it's time to buy shares of this bank.

CATEGORY

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2. Dividend Stocks
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

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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)
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8. TSX:CM (Canadian Imperial Bank of Commerce)
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Date

2025/07/02

Date Created

2018/03/05

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