



Ranking Canada's Big 5 Banks by Year-Ahead Upside Potential

Description

Canadian banks are considered must-own stocks whether you're a beginner investor who's just getting started, a seasoned investor looking to cream the markets, or a retiree who's settling down with lower volatility income plays.

Although short interest in Canada's big banks has been high over the past few years, I'd urge investors to take such short interests and their respective bearish theses with a fine grain of salt. Canada's big banks continue to impress time after time, and unless there's a market-wide collapse, I'd continue to urge investors to buy the best of the Big Five at any given point in time.

Here's a ranked list in ascending order of what I believe are today's best buys based on year-ahead upside potential:

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

With a majority of revenues derived from the domestic market, Royal Bank is going to need to continue expanding upon its promising U.S. segment to keep up with the rapidly rising **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), which now has more branches in the U.S. than in Canada.

With the second-highest exposure to Canada's frothy housing market, I don't think Royal Bank is worthy of a premium multiple over a majority of its peers anymore.

Royal Bank is still a high-quality name that existing shareholders should continue to hang on to. But if you've got fresh money to invest, I'd put it in another Big Five name.

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

It's been quite an eventful past year for BMO.

Fraudsters hacked the bank, the promising ETF business continues to pick up traction (second-largest provider of ETFs in Canada), and, most recently, BMO was the first big Canadian bank to play the role of lender in the red-hot marijuana space, [extending a \\$200 million debt facility](#) to **Aurora Cannabis Inc.**

Fellow Fool contributor Will Ashworth is a bull on BMO, but at these levels, I think recent positive developments are all but baked in to shares at these levels. BMO stock trades at a slight premium on almost every traditional valuation metric versus that of its historical average. I'd suggest standing pat and waiting for a better price before placing a bet on Big Blue.

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

Scotiabank is a prudent way to get a jolt of emerging markets into your portfolio. The exposure you'll get to Latin America will allow for a higher degree of growth versus most of Canada's less geographically diversified peers.

Over the next few years, Scotiabank will continue to make noise in Latin America and is well equipped to clock in industry-leading ROE numbers over the next five years or so, as Scotiabank's international venture begins to pay significant dividends.

Emerging markets are riskier and could subject Scotiabank to a greater degree of volatility versus its peers, but at just 9.9 times forward earnings, I think the risk is well worth the reward. And the slight discount just sweetens up the pot!

Toronto-Dominion Bank

I believe TD Bank is Canada's highest-quality bank, and at this rate, it's likely also going to be Canada's biggest bank by market cap. Many analysts have referred to TD Bank as Canada's "safest" bank, but what may surprise you is the fact that it's become a safe bet without compromising on growth whatsoever.

With a robust U.S. segment and very promising efforts to digitize its various offerings. I think TD Bank is the most future-proof name in the Big Five, and because of this, I believe extremely long-term investors ought to consider a position, regardless of the valuation.

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

Here's a name that's been unloved and undervalued for quite some time in spite of management's promising efforts to become a better, more robust bank over the long term.

CIBC's U.S. business is firing on all cylinders, and although the primary concern is the bank's vulnerability to a housing collapse, I think the [bear thesis is way overblown](#) and that in the end, earnings will end up dictating the trajectory of the stock.

At just 9.2 times forward earnings, you're getting a 4.7% yield and the potential for substantial upside surprises. Simply put, the bar has been set way too low!

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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)
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10. TSX:TD (The Toronto-Dominion Bank)

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