After Dismal Earnings, Should You Dump These 3 Bank Stocks?

Description

It's been a rough couple of weeks for Canada's bank stocks. As the rest of the TSX keeps climbing, bank stocks seem to have hit a wall. Is it time to rethink your holdings in **Toronto-Dominion Bank** (TSX:TD), **Canadian Imperial Bank of Commerce** (TSX:CM) and **Bank of Nova Scotia** (TSX:BNS)?

TD blames woes on wholesale banking business

Last week in its earnings release, TD recorded a $17 million loss in its wholesale banking business. The company blamed the revenue decline on the difficult trading conditions due to the highly volatile market.

The bank reported earnings of $2.4 billion and EPS of $1.27. Despite the losses in the wholesale banking business, the bank's revenue increased 7%, thereby reflecting higher margins and volume growth in its retail businesses.

The good news for long-term investors was the increase in the dividend, bringing it to $0.74 per share. This hike of the dividend represents a five-year compound annual growth rate of almost 10%.

CIBC misses estimates for second quarter in a row

CIBC reported earnings of $1.2 billion and EPS of $2.60 in its earnings call last week, marking the second quarter in a row that the bank has missed estimates.

The revenue from the wealth management business was down 4%, and the revenue from capital markets was down 12% from a year ago.

Victor Dodig, CIBC CEO, maintained his position that the company has been "very, very clear in its capital deployment strategy, investing organically over indexing in commercial banking and wealth management, growing dividends and using buybacks to provide capital for inorganic growth. That's been our clear strategy all the way along and it will be our strategy going forward. We use these levers as we see fit to drive shareholder value."

The bank increased its quarterly dividend by $0.04 to $1.40 per share.

Bank of Nova Scotia misses again

Bank of Nova Scotia delivered adjusted earnings of $2.3 billion and EPS of $1.75 representing a 6% drop compared to last year. The bank blamed the drop on the volatility in the capital markets that directly impacted the origination and secondary trading businesses within its global bank and markets business.

However, Brian Porter, Bank of Nova Scotia CEO, remained positive on the bank and the Canadian economy overall. He cites low unemployment levels and foresees continued wage growth, job creation and immigration as positive influences on the economy.

The bank also increased its dividend by 6% to $0.87 per share.

The bottom line

Regardless of the recent disappointment in earnings, bank stocks represent an important component of an investor's portfolio. These stocks generally reward patient investors with descent profit growth and a steady dividend. After all, banks are in the business of making money in good times and bad.

With only a handful of major players in Canada's banking sector, investors have few options. Therefore, savvy investors should use the recent pullbacks in the prices of TD, CIBC and Bank of Nova Scotia to add to their portfolios rather than bail on the banking sector entirely.

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