Buying Big Bank Stocks? Overlooking These Banks Is a Mistake

Description

Canadian financials have been in an interesting place of late, with some pundits questioning the validity of the Big Six after the U.S. yield curve inverted, potentially exposing domestic banks to the possibility of a turbulent American economy. With this in mind, let's comb through the data for two of our biggest bankers as well as another TSX index financials stock.

E-L Financial (TSX:ELF)

TSX index investors are somewhat bullish on this insurance and investments ticker of late, nudging its share price up 0.25% in the last five days. However, with negative one- and five-year past earnings-growth rates, is it a stock to buy and hold for the long term and can it compete with two Big Six bankers?

There are at least a couple of things going for E-L Financial: its level of debt compared to net worth has been brought down over the past five years from 10.9% to just 7.5% today, and that debt is well covered by operating cash flow. However, value is an issue here, with a high P/E of 203.8 times earnings barely mitigated by a P/B of 0.6 times book.

National Bank of Canada (TSX:NA)

Up 2.18%, this is a popular pick by democratic choice, which bodes well for the nation's sixth-largest banker. National Bank of Canada's returns of 6.9% just edged out the Canadian banking industry average of 5.2% over the last 12 months, and though its one-year past earnings growth of 7.4% underperformed the industry, its five-year average past earnings growth of 8.6% matched it exactly.

A past-year ROE of 15% isn't overwhelmingly high, though it shows passingly good quality for a Canadian stock. Additionally, National Bank of Canada has a sufficient allowance for bad loans, unlike some other members of the Big Six.

In terms of value, National Bank of Canada ticks all the right boxes with a P/E of 10.5 times earnings and P/B of 1.8 times book. It delivers on both passive income and outlook, too, with a dividend yield of 4.11% and 4.7% expected annual growth in earnings, respectively.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC stock is up 1.59% in the last five days, and with a one-year past earnings growth of 10.3% and five-year average growth rate of 10.9% to match, it's got a steady track record. Again, a past year ROE of 14% is "good enough," though like some other Big Six banks, CIBC does not have a good allowance for bad loans.

It's the same story here with value, with a P/E of 9.8 times earnings and P/B of 1.5 times book showing the kind of tedious good value that low-risk value investors like to see, while a chunky dividend yield of 5.05% and 6.3% expected annual growth in earnings add up to a solidly defensive buy.

The bottom line

E-L Financial's dividend yield of 0.62% is certainly lower than that of some other financial stocks and shows it doesn't quite have what it takes to match the Big Six in terms of passive income. However, its 24.8% expected annual growth in earnings is more positive than the average outlook for a Canadian banker on the TSX index.

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