



## Danger: 3 Canadian Banks That Are Being Shorted By a Legend!

### Description

Here we go again!

Canadian bank short-seller, Steve Eisman, the man made famous by the book *The Big Short*, has his crosshairs on three Canadian banks, two of which are members of the Big Five, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **CIBC** ([TSX:CM](#))([NYSE:CM](#)), and one is a regional player in Quebec, **Laurentian Bank** ([TSX:LB](#)).

Fellow Fool contributor Ambrose O'Callaghan did a fine job looking into the [three banks](#) identified by Eisman. In this piece, I'm going to give my take on the three stocks that Eisman hates the most, and tell you whether or not his bearish claims should have any merit with investors. Also note that I'm not a bank short-seller and don't buy into the "doomsday" thesis that all Canadian banks will crash and burn.

### Royal Bank of Canada

The largest bank in Canada is being targeted by Eisman.

O'Callaghan praises Royal Bank for its strong first-quarter results, noting that the results indicated that the bank "has been active in preparation for economic headwinds" despite Eisman's beliefs that Canada's big banks are "ill-prepared" for a credit cycle.

Sorry, Eisman. But I'm going to have to side with O'Callaghan on this one.

Royal Bank faired quite well relative to its peers in spite of the lowered activities in the capital markets. While credit losses jumped 54% year over year, the damage could have been much worse had Royal Bank not been equipped to deal with the rocky road in Q1.

While Royal Bank isn't as hideous as Eisman makes it out to be, I still think Royal Bank is at risk of a mild correction, as I pointed out in a [prior piece](#).

It's not because I think Royal Bank is a sub-par bank. I'm just not a fan of the valuation, which is pretty

expensive at 12.9 times trailing earnings. The banks likely aren't out of the woods yet (Eisman certainly doesn't think so), so a slight discount, I believe, is more than warranted.

## **CIBC**

Here's the Eisman short target that I disagree with most. I own shares in CIBC because it's ridiculously cheap and it undeservedly gets a bad rap, likely because of the aftermath of the Great Recession, when management got caught with its pants down.

Unlike Royal Bank, CIBC posted some weak results for the first quarter: a slight earnings miss right after another slight earnings miss in the fourth quarter.

"CIBC suffered an 11% drop in profit in Q1 2019. This was due to double-digit drops in net income in Canadian Personal and Small Business Banking as well as Capital Markets. The bank still hiked its quarterly dividend by 4% to \$1.40 per share." said O'Callaghan.

While CIBC hasn't been the bank stock to write home about of late, I think it's reckless to short this bank at its currently depressed valuation. Not only will you be on the hook for a 5% dividend yield, but you could also suffer double-digit percentage losses should CIBC stock correct upwards from its single-digit P/E multiple.

The bar is set way too low for CIBC, so I think the name could be in for the mother of all short squeezes.

## **Laurentian Bank**

Finally, we have the regional Quebec player that sports one of the largest yields in the banking scene. The stock sports a huge 6.14% yield at the time of writing, and although it's bountiful, I've expressed my strong distaste for the stock after the bank clocked in its last abysmal earnings result.

"Laurentian's management team is sub-par and is warranting of a significant discount," I said in a [prior piece](#). "I suspect the stock will struggle to regain its footing as the bank looks to improve its cost controls. For now, Laurentian is dead money, so I'd steer clear of this roughed-up regional bank."

While cheap on the surface with an 8.3 trailing P/E, the stock has way too much baggage on its hands. With Laurentian, you're really getting what you pay for — not a heck of a lot. Of the three banks listed by Eisman, I have to say Laurentian is the only target that I agree with. There are a lot of problems under the hood at Laurentian, so I'd steer clear.

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## **TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:LB (Laurentian Bank of Canada)
5. TSX:RY (Royal Bank of Canada)

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## **Date**

2025/10/02

## **Date Created**

2019/05/13

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