



TFSA Investors: Why it's Time to Get Greedy With Canadian Banks

Description

The second quarter was a tough pill to swallow for the banks. The theme was higher provisions for credit losses (PCLs), sluggish mortgage growth, and increased expenses.

The biggest Big Six loser, **CIBC** ([TSX:CM](#))([NYSE:CM](#)) fell off a cliff and is now down nearly 9% since management pulled the curtain on its second-quarter earnings. **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), a clear winner in the second quarter, showed that it had no big dents in its armour, causing its investors to breathe a collective sigh of relief after the barrage of fear-inspiring Canadian bank short calls in the mainstream financial media. Despite the solid results and the continued resilience exhibited by TD Bank, however, shares of the name haven't sustained a rally as they should have.

Indeed, there's still a cloud of darkness over the Canadian banks, and although uncertainties couldn't be greater in these times of economic warfare, I still think there are plenty of opportunities for contrarians to make excess risk-adjusted returns, as the Big Six banks continue to get shaken up, both by the slowing economy and escalating geopolitical tensions.

It's times like these when the [best contrarian investors](#) are made.

Many bank investors have been feeling the jitters of late, various U.S.-based short-sellers have been taking their Canadian short positions to the bank (so far), and near-term macro headwinds, together with higher volatility, are making it tough for investors to justify betting on any of Canada's top banks in these highly uncertain times.

But all these negatives appear well factored into share prices of Canada's top banks at this juncture. In fact, the negativity may be exaggerated when you consider the likelihood that many Canadians out there have subscribed to the "short-Canadian-banks story" with big-league names like Steve Eisman (a man made famous by *The Big Short*) making public bets against Canada's top financial institutions.

Just have a look at the valuations of the Big Six banks. They're pretty darn cheap, and although there may be a bit of baggage to hold for the lower valuations and marginally higher yields, long-term investors who aren't rattled by short-term news and fluctuations may have a second chance to back up the truck on shares at a nice discount if they missed the short window of opportunity late last year,

when stocks fell off a cliff.

The second quarter stunk, especially for CIBC, but when you consider the long-term growth story is still intact, with the U.S. business continuing to fire on all cylinders, the name becomes a must-buy with its massive 5.5% dividend yield, which is close to the highest it's been in recent memory.

CIBC isn't some junk stock that's chock-full of bad mortgages, like a select few that went down in the U.S. during the Financial Crisis, but it sure is priced like one. Further credit deterioration is plausible, but given shares trade at 8.5 times next year's expected earnings, I'd say the expected baggage is worth the slightly higher yield and the lower price of admission.

As for TD Bank, you're arguably getting Canada's most premium banks at a sizable discount, even after seeing the decent Q2 numbers that showed the name was in a league of its own. At the time of writing, TD Bank shares trade at 10.8 times next year's expected earnings and just 1.7 times book to go with a 4% dividend yield.

Foolish takeaway

Both CIBC and TD are two top bets that TFSA investors should be backing up the truck on. The valuation gap between the two names has widened considerably after the second quarter. For those seeking more profound value, a [potentially higher medium-term reward](#), and don't mind the added volatility, CIBC is your horse. For everybody else, there's TD Bank — a resilient knight that should be excluded from all negative hearsay regarding Canada's banks.

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