The Best Canadian Bank to Buy on the Dip

Description

The Canadian banks have been clobbered a good one lately. Famed short-seller Steve Eisman, the man behind *The Big Short*, expressed his bearish view on Canada's big banks quite publicly over the last few months.

After the banks pulled the curtain on an underwhelming second quarter, many investors were wondering if the worst was over. Eisman returned to the spotlight again in an interview conducted by *BNN Bloomberg*, and his answer was a confident and clear *no*, as Eisman stated he's been "…adding to his short positions."

To take it a step further, Eisman made it clear that he has even more conviction this time, noting that an astounding "…nine out of 10 banks" are at risk of taking on a considerable amount of damage as the "…normalization in the credit cycle" continues.

These comments are concerning for the majority of Canadian investors who own shares of Canadian banks. While Eisman has a heck of a track record on betting against overextended financial institutions, it's important to remember that while Eisman was behind *The Big Short*, that he's not calling for the same magnitude of damage when it comes to Canadian banks.

So, no your position isn't going to lose 90% of its value when this credit cycle normalization is over with, but it would still be prudent to expect the worst and hope for the best as credit continues to decay.

The most intriguing part of Eisman's interview with *BNN Bloomberg* was not that he's grown even more bearish since the last time he was under the media spotlight, but that he still lacks conviction on one Canadian bank in particular. That Canadian bank is most probably **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), Canada's most American bank with more branches south of the border than here at home.

From a comparables standpoint, TD Bank got an "A" for its second-quarter results, which, while unable to spark a sustained rally to higher levels, was looking considerably better than many of its more domestically exposed peers. TD Bank's wholesale segment is staging a comeback and the U.S. segment did a lot of the heavy lifting, leading to a solid 8% in revenue growth. But most notably, credit looked pretty decent when you consider the move to credit normalization.

Could TD Bank be the only bank in Eisman's eyes that was actually prepared for the next phase of the credit cycle?

I'd bet on it.

The most astounding thing about TD Bank is the fact that shares are closer to correction territory than they are to all-time highs, which makes no sense given how resilient that name has been and how the more conservative lender isn't the ship that other bank investors have been jumping to over the past year.

Rattled bank investors appear to be throwing in the towel on the entire sector, which is good news for those who recognize just how well-operated TD Bank is relative to its peers.

Sure, the extensive exposure to the U.S. helps, but hats off to management, as TD Bank may be the only business that's prepared for the credit cycle. The stock trades at just 10.8 times next year's expected earnings, which is much lower than the five-year historical average P/E of 13.4. I'd get ready to back up the truck here.

TD Bank may be the only good apple in a mostly spoiled batch.

Stay hungry. Stay Foolish.

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Date
2025/08/15
Date Created
2019/06/07
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