Royal Bank of Canada (TSX:RY) and CIBC (TSX:CM) Prove Canada's Big Banks Stocks Are Resilient

Description

This past week, two of Canada's Big Banks reported third-quarter results. Bears have long been calling for their demise, and this quarter presents yet another test for the group.

How did **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) perform?

The results were mixed and somewhat surprising in that chronic underperformer CIBC topped analysts estimates, while the usually reliable RBC posted less-than-stellar results.

Royal Bank kicked off the bank earnings season by posting earnings of $2.26 per share and revenue of $11.54 billion. This missed expectations by $0.04 per share and $20 million, respectively.

Despite the miss, however, Royal still grew earnings per share (+6%) and revenue (+4.6%) over the third quarter of 2018. Although lower than expected, it should still rank among the highest growth numbers in the industry.

Canadian Imperial Bank of Commerce followed up by topping estimates on both the top and bottom lines. Earnings of $3.10 per share beat by $0.04 and revenue of $4.73 billion beat by $40 million. Revenue jumped by 4% and earnings crept up by a mere percentage point year over year.

As has been the norm in recent years, both companies also announced their second dividend increases of the year. CIBC raised dividends by $0.04, which was in line with expectations, whereas RBC raised by $0.03, a penny shy of estimates.

I think it's fair to say that at a high level, Canadian Imperial Bank of Commerce surprised to the upside, while Royal Bank of Canada disappointed — and the markets agreed. On the day of earnings, CIBC's stock jumped 2.3%, while RBC's stock dropped by 80 basis points.

Is there anything investors can glean from these results heading into next week? Let's take a look.

Personal and commercial banking, and wealth management

One thing is clear, however: if the economy is softening, then the banks should be commended for robust performance in these segments.

RBC saw strong double-digit net income growth across both of these segments. For its part, CIBC recorded modest growth of 6% in its U.S. commercial and wealth management segment, offsetting a 1% decline from operations north of the border.

Capital markets

On the flip side, it was a weak quarter for the capital markets segments and was the primary cause for the bank's earnings miss.

Also unsurprising is that Capital markets have been very volatile over the past quarter; when this happens, there tends to be less trading and investment activity, which was certainly evident.

At RBC, segment net income dropped 6% and CIBC saw net income plummet by 13% over the third quarter of 2018. Although weak, these results weren't entirely unexpected given the current market conditions.

Provision for credit losses (PCL)

This is the big one — and a favourite target for bears. Over the last couple of quarters, PCL has been slowing rising, which has been a cause for concern especially in this environment of economic uncertainty.

Royal Bank and Canadian Imperial proved once again that the Big Five banks are resilient. At RBC, PCL accounted for 0.27% of its loan portfolio, representing a 2% decrease quarter over quarter. Coming in at $346 million, it was lower than analysts were expecting.

CIBC's PCL ratio also came in at 0.27% of loans outstanding. This represented a 2% drop over the third quarter of last year and a modest 1% decrease over the last quarter.

Overall, the results bode well for the remaining Big Five scheduled to report next week. Against the backdrop of a dovish Fed and early signs of a recession, neither company made changes to their economic forecasts for the remainder of the year.

It's steady as she goes for Canada's Big Banks.

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