2 Top Canadian Banks to Buy in November

Description

Canadian banks for have been garnering negative attention for some time. For this reason, the Big Five banks are currently ranked as the most shorted stocks on the TSX. While they are facing numerous short-term headwinds and have reported mixed results for the first three quarters of 2019, the big banks are poised to deliver long-term value. In fact, their flat performance for the year to date has left the Big Five attractively valued, creating an opportunity for investors to add quality dividend-growth stocks to their portfolios at a compelling price.

Too cheap to ignore

The most domestically focused of the Big Five, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is also the most attractively valued. After reporting better-than-anticipated fiscal third-quarter 2019 results, the bank's stock leapt higher, but it has still gained less than 1% for the year to date. That leaves it trading at a low nine times forward earnings and 1.4 times its book value, indicating that it is quite cheap, particularly in comparison to its peers.

Canadian Imperial beat the average analyst earnings estimate for the third quarter 2019, emphasizing that its strategy, which is aimed at unlocking value for shareholders, is gaining traction, giving its stock a healthy lift.

The bank's credit quality remains high, as evident from its third-quarter gross impaired loans (GIL) ratio of 0.45%, which was one basis point higher than a year earlier. The quality of Canadian Imperial's loan portfolio is illustrated by its net write-offs remaining stable with an unchanged ratio of 0.28% for the same period.

Canadian Imperial continues to unlock value and focus on boosting profitability. Its third-quarter net interest margin for Canadian personal and commercial banking grew by 10 basis points year over year to 2.59%, and the bank is progressing the expansion of its digital transformation, which will drive greater efficiencies and profitability. By the end of the third quarter, the digital adoption rate had expanded by 1.3% year over year, and the number of active mobile users was up 12%. The ongoing expansion of Canadian Imperial's U.S. operations, with a focus on higher net-worth and corporate clients, will also drive higher earnings.

While investors wait for this to translate into a higher share price, they will be rewarded by Canadian Imperial's sustainable dividend yielding a tasty 5%.

Solid growth ahead

Canada's largest lender, **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which is the second most shorted stock on the TSX, has been the best performing among the Big Five, delivering a return of 6% since the start of 2019. Regardless of that solid performance and some credible third-quarter 2019 results, Royal Bank ranks as the second most shorted stock on the TSX after **Toronto-Dominion Bank** .

This is surprising, because despite the ominous economic outlook, Royal Bank reported that diluted earnings per share shot up by 6% year over year driven by solid revenue growth from its Canadian banking and U.S. wealth management businesses. Wealth management is becoming an increasingly important growth driver for Royal Bank, with that division reporting record third-quarter earnings. The bank also reported double-digit earnings growth for its insurance business, where net income shot up by a very healthy 29% year over year.

While credit quality deteriorated, as illustrated by Royal Bank's GIL ratio rising by seven basis points year over year to 0.47%, it still indicates that credit quality remains high and that ratio is lower than **Bank of Nova Scotia's** and **Bank of Montreal's**.

Royal Bank is focused on unlocking efficiencies from its operations, which saw it report an impressive third-quarter efficiency ratio of 41.5%, which is the lowest among the Big Five banks. This is an important measure, because it shows just how effectively a bank is using its resources to earn revenue; the lower the number, the more efficient the financial institutions operations. Royal Bank's focus on digitization will reduce costs while improving customer access to its products and services, thereby increasing the efficiency of its operations and profitability.

The bank is nicely positioned to continue growing, and while investors wait for economic conditions to improve, thereby boosting earnings and ultimately its market value, they will be rewarded by its sustainable dividend yielding a tasty 4%.

CATEGORY

1. Bank Stocks
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3. Investing

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:RY (Royal Bank of Canada)

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