REVEALED: My Favourite (and Least Favourite) Canadian Banks for 2020

Description

It's been a pretty forgettable year for many of the Canadian banks. As they pull the curtain on their quarterly results once again, investors will be sure to look into the details for signs of life that could trigger analyst upgrades.

Many Canadians have unfairly grouped the Canadian banks together as they continue to endure challenging macro conditions. That's no thanks to short-sellers like Steve Eisman who's maintained bearish conviction in "nine out of ten" of them as the credit cycle inches toward normalization.

Such a souring on Canada's banks opens up an opportunity for contrarians to separate the good apples from the bad ones.

Bank of Montreal sets the stage for a sour quarter for the big banks

Bank of Montreal (TSX:BMO)(NYSE:BMO) clocked in some pretty weak fourth-quarter results, sparking a 2.1% pullback on a down day for the broader markets. BMO posted adjusted EPS of $2.43, up 5% year over year, beating the consensus by two cents and announcing a 6% dividend raise.

The biggest takeaway from the quarterly release, however, was the $484 million in incurred pre-tax restructuring charges, which led to hundreds of job losses that impacted 5% of BMO's global workforce).

"We're looking for people to invest in areas where we have opportunities for growth and slow down in areas where we don't," said BMO CEO Darryl White.

While the restructuring may bode well for the bank's longer-term future, its sheer magnitude leaves the bank subject to greater uncertainties. As such, BMO deserves to trade at a significant discount to its peer group, a discount that could widen over the coming weeks.

A cheaper bank with a higher yield

CIBC (TSX:CM)(NYSE:CM) is a Canadian bank that's a far better bet. Given the bank's troubled past (shares took a ridiculously long time to recover after the 2007-08 Financial Crisis), the name has always traded at a sizeable discount to its bigger brothers.

The discount has recently grown to unsustainable lows. Mortgage growth has slowed down, and provisions were a concern earlier in the year, but many investors have discounted the fundamental improvements that management has made over the last few years under CEO Vic Dodig, who was quick to dismiss short fears brought forth by short-seller Steve Eisman.

The fact remains that CIBC is a more robust bank than most give it credit for. With the bar set so low, it's easy for a company like CIBC to vault over it.

The stock trades at 9.3 times next year's expected earnings with a 5.1% dividend yield. With a promising U.S. business, CIBC looks ready for a bit of multiple expansion, while BMO, which is currently trading at 10.2 times next year's expected earnings), may be at risk of multiple compression given the risks brought forth by its massive restructuring.

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joefrenette