



2 Canadian Banks I Wouldn't Touch in 2020

Description

It's been a tough year for bank investors given the industry headwinds that, according to analysts, aren't going anywhere in 2020. Lower profit growth, tighter margins, higher provisions for credit losses (PCLs) and expenses are in the cards.

And as we've seen in the third quarter of 2019, any better-than-feared results may be seen as passing through the calm eye of a hurricane, with more treacherous conditions waiting at the other end of the eyewall, rather than a "bottoming out" of the hardships of the Canadian banks.

It's a tough time to be a Canadian dividend investor who's relied on the big banks for **TSX**-beating returns over the last decade.

But not all Canadian banks are built the same. Some have [better foundations](#) than others and will be able to grow profits at a decent rate in spite of the bleak macro conditions that supposedly lie ahead.

This piece, though, will focus on two Canadian banks that I believe are either ill-prepared or overvalued for what could be another round of battering in 2020.

Without further ado, consider scratching the following two bank stocks off your buy watch list:

Canadian Imperial Bank of Commerce

Up first, we have the perennial underperformer in **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), whose stock got completely [slaughtered](#) over the past year and a half.

After the latest fourth-quarter disappointment, CIBC stock is down over 12% from its all-time high. And with more of the same that could be in store for 2020, I'd say it's a real possibility that CIBC stock could make a return to bear market territory, as it did late this summer.

CIBC got a bit ahead of itself when it grew its loan book when credit conditions were favourable, and now the bank that tried to catch up is paying the price, falling behind its peers further in the process.

For Q4, PCLs jumped again by 70%, an alarming amount, alongside muted guidance for the new year.

The bar is set low for 2020, but I'd still maintain caution as CIBC could experience a further re-acceleration to PCLs. And if conditions are as bad as short-seller Steve Eisman makes them out to be, CIBC could find itself back in the double-digits.

Bank of Montreal

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)), a Steady Eddie Dividend Aristocrat didn't have as rough a year as CIBC, but it's still in a tight spot as after the credit window slammed shut.

BMO is undergoing a significant restructuring, which is expected to result in considerable expense savings (\$375 million by Q1 2021) in the new year should all go according to plan.

While the set-up for BMO head into 2020 isn't as dire as with some of the other Canadian banks, I'm not at all a fan of stock's valuation given it shares the same sluggish traits as many of its peers.

Moreover, I don't see BMO as deserving of its premium valuation given that it has missed earnings estimates three of the four quarters of 2019.

I get it. Investors are looking for a glimmer of hope amid an unfavourable industry environment. Still, I don't think BMO's encouraging restructuring warrants a valuation that's just a slight discount to its historical average multiples.

The stock trades at 1.42 times book and 11.7 times trailing earnings, both of which are only slightly higher than the stock's five-year historical average multiples of 1.5, and 12.26, respectively.

BMO deserves to trade at a discount, as do most of its peers. So, I think investors ought to demand a more significant margin of safety from the name at this juncture.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BMO (Bank Of Montreal)
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