Should Investors Still Buy These 3 Top Canadian Bank Stocks?

Description

Without a clear consensus on trends or sentiment for the year ahead, the risk-averse investor may be wondering at the moment whether to add more bank shares to a portfolio. It's certainly been a tough few months for Canada's banks, with growth in revenue hard to come by. This week, all five of the Big Five were down by at least a percentage point.

The news that **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is following **Bank of Montreal** into layoffs territory not only underscores the strongly cyclical nature of these sorts of financial institutions, but also tells investors something about the state of the national economy. As the second Big Five player in the last two months to cut jobs, the move adds more uncertainty to the sector.

So, should investors keep buying, or is it time to begin stripping out bank shares from a low-risk portfolio founded on strictly defensive companies? With both CIBC and **TD Bank** set to restructure this year, income investors shouldn't have too much to worry about, as the move is systemic and shows that Canada's financial institutions are re-positioning themselves amid a tough banking market.

However, the performance of the banking sector as the trade war intensified last year was lacklustre. So too was the sector's response to the Middle East scare earlier this year that almost saw tensions bubble over into a full-scale war. Now, in the grips of the coronavirus outbreak, deemed an international health emergency by the World Health Organization, banks stocks are languishing.

By responding to a weakening economic outlook, banks making greater provisions for bad loans has weighed on income. And while cutting costs and making provisions for a broad downturn can be viewed as positives, they are also indicators of a worsening financial environment.

Reasons to get invested

The main takeaway here is that value opportunities will abound in 2020. Bank investors may want to remain bullish and take job cuts as a continuation of efficiency ratio improvements. For instance, CIBC managed to pare down its expenses to revenue by 5.1% in four years and is actively working on reducing it further still.

CIBC pays the highest dividend yield of the Big Five at 5.36%. It has the lowest expected earnings growth, however, forecast at 2.25% per year. Compare this with TD Bank’s predicted 5.2% annual growth in earnings or BMO’s expected 6.74%.

Indeed, BMO is looking like a solid option for investors seeking to expand their exposure to Canadian banks. From its focus on domestic banking to an increase of 5.3% in earnings over the past year, and a 4.13% dividend yield, BMO is slightly more rewarding than TD Bank. The latter banker pays a slightly lower yield of 4.06% and trades 17% below its future value compared to BMO’s 22% discount.

The bottom line

The combination of a reduced appetite for credit, mortgages, and other financial products with higher expenses could weigh further on banks this year. However, bullish TSX investors may want to take a contrarian tack and snap up high-quality Canadian banks on weakness.

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