Canadians: Here’s the Best Bank for Your Buck!

Description

Amid macro headwinds, the banks are looking quite toxic for investors in 2020, at least according to **Canaccord Genuity**, which downgraded Canadian banks due to their “toxic mix” of risks amid the continued credit downturn.

Martin Roberge, director of North American portfolio strategy at Canaccord Genuity, recently sat down in an interview conducted by *BNN Bloomberg* to chat about his firm’s views on Canada’s banks as a whole. He warned investors that “the banks will be lending less and at lower margins,” also noting the possibility of greater “downside risks to earnings estimates” as a result.

There’s no question that the banks have been a tough place to invest over the last two years. And while it’s tempting to go against the grain with a contrarian position in one of the more beaten-up banks (such as **CIBC**), I’d encourage value investors to exercise caution, as the road to credit normalization may be a slow one that may not result in a sudden correction to the upside. As such, patience and cautious optimism would be advised as we head into a year that could very well see further analyst downgrades from across the board.

I wouldn’t take it as far as putting all the Big Six banks in the same basket, though. **National Bank of Canada** (TSX:NA) defied the odds last year, with results that put most of its bigger brothers to shame. National Bank was an underdog heading into the year, and now it’s a top dog thanks to prudent decisions made by management with Louis Vachon at the helm and the robust Quebec economy.

The company really shined when the going got tough. With more pain in the cards for the broader basket of Canadian banks, I’d say that National Bank arguably is well positioned to continue riding out the rough banking waters on the road to normalization. National Bank posted some stellar ROE numbers (19% in the last quarter) with EPS growth of 11%.

“It’s as though National Bank didn’t get the memo that the Canadian banks are in a highly unfavourable environment, doomed for surging provisions and sluggish growth.” I said in a prior piece.

With tempered growth expectations in the low single digits for many of the Big Six, National Bank has yet another chance to rise head and shoulders above its peers, as it shows just how well prepared it was for the long-awaited transition into the next phase of the credit cycle.

Warren Buffett would probably refer to National Bank as one of the few swimmers in the banking waters that wasn't swimming naked. Now that tides have gone out, we see that National Bank has its trunks on, so if you're going to place a bet on a Canadian bank knowing that the tides won't be coming in anytime soon, it'd only be prudent to bet on a bank that wasn't caught with its trunks down.

National Bank had quietly fallen under the shadows of its peers when credit was easy. Now that the tables have turned, I believe it will be National Bank that will finally have a chance to make up ground over its peers.

At the time of writing, National Bank stock trades at 11 times next year's expected earnings and 3.4 times sales. While shares of the sixth-largest Canadian bank are slightly more expensive than that of their five-year historical average multiples, I'd have to say that given the outperformance last year that the tiny premium is well worth the price of admission as we head into a year that will see the tides come back ever so slightly.

As of mid-February, National Bank is looking like the best bank for your buck.

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