Opportunity of a Lifetime to Buy Canadian Banks

Description

It's not every day where you see shares of the broader basket of Canadian bank stocks down by double digits. The perfect storm of adverse events has undoubtedly knocked the Big Six dividend darlings off the podium.

default watermark

The Canadian credit downturn, the dire humanitarian and economic impact of the coronavirus (COVID-19), and, most recently, an oil price war that sent WCS (Western Canadian Select) prices tanking have acted like a hurricane for the Canadian banks, wiping out billions in dollars of value over a very short period of time.

To add even more salt in their wounds, the Bank of Canada (BoC) seems to be imitating the U.S. Fed with regard to monetary policy with rate cuts (and hints at more to come) that could thin banking margins even further.

With 0.75% interest rates on the horizon, a plunging loonie (thanks to falling interest rates and oil prices), which doesn't bode well for domestic banking, continued macro headwinds in Canada, and an increased likelihood that we're about to fall into a global recession, it seems as though bank stocks are uninvestable amid all the uncertainties. Indeed, this year has the potential to be full of trouble. But then again, when has there been a period where there hasn't been any trouble on the horizon?

Investors will always have something to worry about. And while recent woes are far more concerning, I still believe the recent pullback in banks is an opportunity for contrarians who want more yield at a lower price.

Indeed, the Canadian banks are navigating through a vicious hurricane. With more rough waters expected over the next year, investors would be wise to be very selective if they're looking to bag a bargain in the banking scene. Some banks are better positioned than others to hold their own in the perfect storm and come back roaring when the tides finally turn. Others with poorer loan mixes may stand to sink and not recover nearly as quickly as peers.

This piece will have a look at one of the biggest bargains in the Canadian banking scene: **Bank of Montreal** (TSX:BMO)(NYSE:BMO) led the Big Six downward charge after oil's implosion on Monday, with shares retreating over 13% on the day. The stock had crashed over 30% from peak to trough and looks to be an incredible bargain with shares trading at levels not seen since the last crisis.

We're in the midst of a biological crisis that's been exacerbated by an oil price war — two black swan events that overlapped, sending the **TSX Index** tumbling over 10% in a day.

By "biggest bargain," I mean low valuation metrics relative to the underlying strengths of the company, given the dire headwinds that lie ahead — not just low traditional valuation metrics (like P/E ratios). As Warren Buffett always says, "price is what you pay; value is what you get." And in terms of value in the Canadian banking scene, I think BMO's current price allows investors to pay three quarters to get a loonie.

There's undoubtedly a tonne of baggage with Canadian banks like BMO, which have been making efforts to restructure to better prepare for the continued downturn in the Canadian credit cycle. The bank had made progress with mitigating risks, but out of nowhere, two black swan events caused the stock to crash to multi-year lows.

Foolish takeaway

If there's a stock that can bounce back, it's BMO. The wealth management division is firing on all cylinders (its ETF business could take meaningful share over the next few years), and efficiencies are steadily improving, despite the negative theme of rising costs that have been common to all Canadian banks.

default watermark

When the time comes, BMO is in a good spot to come roaring back. But in the meantime, contrarians have a chance to pick up shares for 7.4 times next year's expected earnings, with a massive 6% yield.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2020/03/11
Author
joefrenette

default watermark

default watermark