Canadian Banks Are at Crisis-Level Lows — Buy Them Now Before You Miss the Boat!

Description

The Canadian banks have suffered the perfect storm of adverse events. Heck, you could even call it a hurricane, with the Canadian credit downturn, the coronavirus pandemic, plunging oil prices, and falling interest rates.

Forget headwinds; the Canadian banks are navigating through a hurricane

Loan growth has slowed due to the credit downturn, which has now been exacerbated by what could be a coronavirus-induced Canadian recession. To make matters worse, the Canadians banks will be making these fewer loans at lower margins, making profitability hard to come by for 2020.

Net interest margins (NIMs) were thin already, and the recent slate of rate cuts from the Bank of Canada (BoC) is serving to thin margins further. Bad loans were surging last year, and with many oil and gas firms in a crisis, soured loans stand to go up even further.

Provisions for credit losses (PCLs), lower margins, fewer loans, and a broader market crash have made the Canadian bank stocks look uninvestible. But at today's valuations, I see a severe recession that's already priced in when a mild recession (if one is to happen at all) may be in the cards.

Take **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock, for instance. The stock plummeted around 65% during the Financial Crisis when investors were questioning the credibility of financial institutions.

This time around, we've got a biological crisis that sent stocks plummeting off a very steep cliff, and while the banks are navigating through a hurricane, they're still nowhere close to sinking.

One of the best Canadian banks for your buck

BMO is its peers in the Big Six are well capitalized and poised to continue growing their dividends despite the recent market declines. Nothing short of a disaster is priced into some bank stocks like BMO, which is currently down 45% from its all-time high. That's excessive, and the stock is leading the downward charge because of its marginally higher exposure to oil and gas loans.

The stock sports one of the safest 7% yields out there and looks to be one of the best opportunities for contrarian investors since the last crisis.

Similar to the previous market crash, BMO (and other Canadian banks) will recover, and those who locked in the +7% yield will be the ones that will have their cake and eat it too.

The stock is easily worth twice as much as it's priced today. Earnings are going to drag, but the bar has already been lowered, making it an easy road for a bank that most investors have already written off for the year.

Foolish takeaway

For those looking for deep value, now is the time to act. BMO is already around 75% away from the magnitude of decline suffered in 2008, making the name the best bank for your buck as investors ditch the industry to the curb amid the chaos.

While the Canadian banks could continue falling as coronavirus fears grip this market, I'd have to say that the thought of missing out on the dividend growth king worries me more than a further decline at these prices.

Stay hungry. Stay Foolish.

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