
ALERT: Canadian Banks Earnings Loom: Buy the Dip or Jump Ship?

### Description

Investors in the Canadian banks are bracing themselves for what could be a doozy of an earnings season. Loan losses are likely to soar, but with expectations already lowered to the floor, it certainly makes sense to go against the grain by scooping up those swollen yields amid this unprecedented crisis.



As a contrarian, sometimes you need to be willing to look foolish (that's a lower-case "f" over the short term to be able to capture stocks at considerable discounts to their intrinsic value.

## Warning: Rocky road ahead for the Canadian banks!

Today, the Canadian banks are looking more like a speculation that an investment given the coronavirus-related uncertainties that are likely to remain over the intermediate-term. That said, the Big Six are Dividend Kings with dividends that have survived past crises, and they're likely to survive this pandemic-induced crisis, even though many bears tout that "this time is different."

If you're looking to lock-in an above-average yield and have a strong stomach for volatility, now is as good a time as any to scale into a position in your favourite Canadian bank stock, even as hideous bank earnings numbers come due.

We're about to enter into one of the worst bank earnings seasons in recent memory. There's going to be off-the-charts volatility across the board, but not all bank stocks are built the same.

Some are better structured than others to deal with the typhoon that lies ahead, and others are in a position to crumble like a paper bag as pressures continue to mount.

## Royal Bank of Canada vs. Bank of Montreal

Recent outperformers, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY), now sport richer valuations than the names that have led the downward charge (**Bank of Montreal** (TSX:BMO)( NYSE:BMO

)) on the coronavirus-induced market meltdown.

Headed into the second quarter, does it make more sense to buy Royal Bank, a bank that's demonstrated its resilience with its superior banking structure and lower PCL (provisions for credit losses) ratio? Or does it make more sense to reach for the cheaper, battered Canadian bank in Bank of Montreal, which could have the most room to run on better-than-feared results?

The Canadian banks have a pretty low bar set ahead of them going into the second quarter. Bank of Montreal's bar is set to the floor, while Royal Bank's is about at knee height. While Bank of Montreal may seem like it'll have the easiest time surpassing already low expectations of analysts, investors ought to realize that it can still stumble over the low bar that's been set ahead of it.

Royal Bank trades at 1.5 times book value, while BMO trades at 0.87 book. Given BMO's greater exposure to the oil and gas (O&G) space, there's no question that the second-quarter numbers are going to be ugly.

Meanwhile, Royal Bank gets an 'A' for rolling with the punches that the macro environment has thrown its way. Management has done a stellar job of mitigating risks, and its capital markets business looks better-suited to hold its own through this recession.



## So, should you go with royalty or the dog at the cusp of Canadian bank earnings season?

It makes sense to nibble away at both *after* those ugly Q2 numbers are released. If you're a younger investor who a strong stomach, I think there's deeper value to be had with BMO these days. And as a known 'C' student, it'll probably have an easier time surpassing expectations.

Moreover, BMO has considerably less exposure to the frothy Canadian housing market than some of its peers. As such, I view BMO as today's best Canadian bank for your buck, especially if you're worried about a housing market meltdown.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**TICKERS GLOBAL**

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:BMO (Bank Of Montreal)
4. TSX:RY (Royal Bank of Canada)

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