Warning: Is This Your Last Chance to Buy Canadian Banks for Cheap?

Description

In many prior pieces, I noted that the coronavirus crisis had blurred the lines between investment and speculation even when it came to Tax-Free Savings Account (TFSA) investor staples like the Canadian banks. While the **TSX Index** has recovered more than half of the ground lost in the coronavirus crash, the banks are still hovering around in limbo, still a country mile away from their pre-pandemic highs.

Pessimism surrounding the Canadian banks hasn't been this high since the Financial Crisis of 2008-2009. A vicious pop in provision for credit losses (PCLs) is coming in what's expected to be one of the worst quarters for the record books.

That said, the valuations of most Canadian banks already reflect excessive pessimism. As the most at-risk plays amid the COVID-19 crisis begin recovering as part of a broader relief rally, the banks could lead the upward charge much sooner than most think, making them wonderful catch-up bets for those who missed out on the broader market's relief rally.

Add recent Canadian bank earnings into the equation and the stage is set for a potential sustained rally for bank stocks.

Better-than-feared results moved the needle for the first two Canadian banks to pull the curtain on Q2 earnings

Scotiabank (TSX:BNS)(NYSE:BNS) and **National Bank** (TSX:NA) pulled the curtain on their numbers on Tuesday, both beating analyst estimates despite the lofty loan-loss provisions that have taken a big bite out of the bottom line.

Shares of Scotiabank and National Bank surged 7.4% by 5.6%, respectively, on that day, adding fuel to a broader banking relief rally that sent **Bank of Montreal**, a severely oversold bank stock that I've been pounding the table on of late, surging 7.6%.

The bar was indeed set low for the Canadian banks, as I mentioned in many prior pieces. Scotiabank and National Bank demonstrated resilience, as the banks braced themselves for surging loan losses caused by the coronavirus. The quarterly results themselves were really nothing to write home about.

Scotiabank suffered an approximately 40% year-over-year drop in profits as provisions doubled — not exactly the type of results that you'd expect to fuel a massive post-earnings pop of 7.4%. Given how much pessimism there was going into the quarter, though, it really didn't take much for the internationally-focused bank to post better-than-feared results.

Scotiabank's provision for credit losses (PCLs) was in at $1.8 billion, which, while not ideal, were pretty much in-line with what the Street was expecting.

Similarly, National Bank saw a 32% decline in profits, as PCLs swelled to $504 million. Management noted that it doesn't see its loan originations returning to pre-pandemic levels in 2020. Again, nothing to write home about and no surprises, which was a good thing given the worst-case scenario that most TFSA investors were expecting.

So, is this the last call to lock-in those enhanced yields at a dirt-cheap multiple?

It certainly seems like it after the broader pop in the Canadian bank stocks on Tuesday.

I was bullish on the banks as a whole heading into Q2, and I remain bullish after the first dose of Canadian bank earnings.

While Scotiabank and National Bank's numbers caused rattled bank investors to breathe a sigh of relief, one must remember that not all Canadian banks are built the same and that, as in 2007-08, some of the ill-prepared banks like **CIBC** could struggle on the road to recovery as its peers bounce back in an abrupt fashion.

In any case, I wouldn't hesitate to add to an oversold bank here. Just make sure you have a preference for prudent risk management rather than just low valuation metrics.

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