



Income Investors: Are Canadian Bank Stocks a Buy Amid the Crisis?

Description

The Canadian banks haven't this [out of favour](#) in quite a while. While the coronavirus crisis has been most unkind to Canada's top financial institutions, this certainly isn't a repeat of the 2008-09 Great Financial Crisis.

The banks are in better shape to roll with the punches this time around, they've been stress-tested, and many of them have made restructuring moves amid the rare Canadian credit downturn that hit over the past year. The well-capitalized Canadian banks were built to survive crises like this.

Still, with select banks having more exposure to some of the weakest areas of the economy, investors would be best advised to do their homework before backing up the truck on any single name.

Headwinds unlikely to fade anytime soon

If you're looking to initiate a [contrarian](#) position on the Canadian banks, you're on the right track, as the industry reeks of value despite the unprecedented headwinds facing them. The banking dividends are swollen, and the traditional valuation metrics are the most depressed they've been since the last crisis.

Given that provisions are likely to continue surging alongside lower loan growth and lower margins, however, investors should brace themselves for further turbulence should bank's capital ratios be pressured such that they flirt with the regulatory minimum.

If it turns out we're in for a second wave of COVID-19 cases, there's no question that the banks could be in a spot to fall back to its March lows as provisioning activity gets out of hand again. On the flip side, a vaccine or sustained economic return to normalcy could allow the banks to lead the upward charge, as they did a dozen years ago.

In any case, investors would be wise to start nibbling today, rather than waiting for the macro headwinds to fade because by then, the price of admission into your favourite bank will likely be a heck of a lot higher and the upside potential more muted.

Bank stocks can be tough to value

Bank can be among the toughest businesses to value, especially if you're not familiar with how they operate.

For most investors, the banks lie outside of their circles of competence. Given that banks are a rare breed of investment that are capable of sporting huge, growing dividends alongside above-average capital appreciation potential over time, though, many long-term investors seek to buy them anyway, albeit it's hard to know the full extent of what's in every bank and their vulnerabilities in the face of crises.

Warren Buffett has been a raging bull on bank stocks over the years. He views banks as no different from any other value investment like **Coca-Cola**.

Although there are many complicated moving parts within each bank, which may make it hard to tell what's exactly in each one, it's important to remember that Canada's banks are arguably the most resilient they've ever been and that even with their sore spots, they'll be able to roll with punches that come with recessions.

Banks made it through the 2008 Financial Crisis, and they're likely to make it through this horrific pandemic, so I think it's a bad idea to follow the herds by shunning the banks and dismissing their low P/E ratios. Sure, they're facing an uphill battle with all the headwinds, but they're not a value trap.

Bank of Montreal looks too cheap to ignore

There could be deep value to be had despite the continued pressures that are already baked into their stocks here. Consider **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), a heavily out-of-favour bank stock that sports a 5.7% dividend yield.

The premium bank trades at a 3% discount to book and looks to be treated as some sort of low-quality regional bank when the reality of the situation is that it's a ridiculously well-capitalized bank that's just fallen on tough times.

BMO doesn't have the best mix of the Big Six, having more than its fair share of oil and gas (O&G), as well as commercial loans, but the discount on the stock, I believe, is exaggerated beyond proportion.

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