



Earnings Season: Canadian Bank Stocks Move on Beats and Misses

Description

It's an important week for Canadian financials. Some of the biggest banks in the land are dishing the dirt on their most recent quarter. Four out of the Big Five banks will be filling in the blanks and helping Canadians get a better idea of how our financials sector has been performing during this tire fire of a year.

A mixed Q3 for Canadian banks

While profit loss wasn't as sharp as it was during the last round of reports back in May, there were certainly some sour notes. For instance, **Scotiabank's** ([TSX:BNS](#))([NYSE:BNS](#)) loan loss provisioning was up 111% year on year during the second quarter. Its Q3 then saw provisioning up 206% from the same quarter last year.

The math is certainly interesting. Loan loss provisioning apparently cost Scotiabank a 40% drop in profits during its second quarter. This time around, profits were down 34% with loan loss provisions nudging \$2.2 billion. The bank also missed both its earnings and revenue expectations.

What matters perhaps more than the pain of banks, though, is the [expectations of analysts](#). Last time around, analysts knew that things were bad, but they weren't sure how bad. This time around, there was less at stake but more to prove. The common consensus, however, is that the worst of the pandemic effects on the economy has passed. Bank profits are expected to begin recovering. And that means that subsequent analysis could be less lenient.

An uneven financials space

All eyes will be on **TD Bank** for an indication of sentiment regarding Canadian banking growth in the U.S. The home of the green leather armchair will be spilling the beans Thursday. Expectations are low, with losses in the 45% range in terms of earnings. However, there's still plenty of scope for a nasty surprise, while a 1.5% estimated revenue beat might be a case of wishful thinking.

That said, **BMO** managed to beat both earnings and revenue estimates, so a TD Bank win could be forthcoming. BMO saw Q3 profits that were better than expected, despite setting aside over \$1 billion in loan loss provisioning. BMO share were up 3.3% on the news. Conversely, shares in Scotiabank were down 1.7% by midday.

But Scotiabank is the [most geographically diversified](#) of Canadian banks. So, while it is currently a little cheaper after its earnings miss, that selloff could have been sharper. Indeed, its international exposure is both a blessing and a curse at the moment.

While the pandemic is arguably hitting Scotiabank later than its contemporaries, this very characteristic may cause analysts – and investors – to give the bank something of a free pass.

With billions of dollars' worth of deferrals set to expire in the fall, though, crunch time could come before the end of the pandemic. That means that bank stocks are on thin ice.

Investors who have been thinking about taking a large long-term position may want to wait until winter before buying the majority of their shares. In short, investors may have to wait for Q4 results to get a clearer picture of the Canadian financials space.

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