Top Canadian Banks: Key Takeaways From Q3 2020 Earnings

Description

Canadian bank stocks climbed higher this week after better-than-expected fiscal third-quarter results. While the pandemic-driven uncertainties remain, the recently released earnings indicate that things may not go as poorly as some anticipated.

Canadian Banks in Q3: Not all gloom and doom

On average, provisions for credit losses dipped in Q3 compared to the prior quarter. They still remained elevated and negatively impacted banks' bottom-lines. Together, the Big Six banks set aside over $7 billion in the third quarter for loans that could go bad. Almost all of them reported higher performance at capital market operations in Q3, offsetting the pandemic's negative impact to some extent.

Canadian bank stocks are still among the laggards compared to broader markets. They have soared almost 35% on average since the record lows in March. The **TSX Index** is up almost 50% in the same period.

The country's biggest bank **Royal Bank of Canada** (TSX:RY)(NYSE:RY) reported a net income of $3.2 billion in Q3, down just 2% year-over-year. Pandemic-related pressures on retail and commercial banking segment were partially offset by higher performance in its wealth management and capital market operations.

Among RBC's $680 billion loan portfolio, vulnerable exposure remained at 7%, in-line with the second quarter. Investors should note that RBC has set aside one of the lowest funds as provisions in Q3 despite being the largest lender by assets.

Top Canadian bank stocks moved higher

RBC stock had a fantastic week so far, gaining more than 4%. The stock is currently trading at its six-month high.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock also had a wonderful week. The stock has soared approximately 7% so far this week after its better-than-expected Q3 earnings. TD stock has soared 35% so far in the pandemic relief rally since March.

It reported $2.25 billion in net income during the quarter compared to $3.25 billion in the same quarter last year.

What's next?

Canadian banks at large have maintained an uncertain outlook on the overall economy. While some of the green shoots paint a rosy economic picture, the risk of the potential second wave of the outbreak could wipe out the four-five month's recovery.

The employment rate is steadily increasing in the last few months, and consumer spending has also shown some robust signs of recovery. However, how things change once the government stimulus ends will be interesting to see.

Notably, the capital market operations might not continue to outperform in the subsequent quarters, making banks' bottom lines more vulnerable to pandemic pressures. Record low-interest rates will also continue to hamper net interest margins.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) reported a net income of $1.3 billion in Q3, a decline of 35% compared to the same quarter last year. Notably, its provisions of credit losses during the quarter surged 18% against Q2 2020.

Higher provisions came in as no surprise given its high exposure to Latin America, which is among the worst-hit by the pandemic. Scotiabank stock has significantly underperformed peer bank stocks in the last few months, gaining just 23% since its March lows.

Bottom-line

Despite back-to-back soft quarters, Canadian bank stocks still remain some of the best long-term investments. Their diversified earnings base, superior credit quality, and prudent provisioning will likely help them recover faster.

Moreover, shares of Royal Bank and TD Bank are trading at attractive valuation compared to peers and their historical averages. Their reliable dividends will be especially comforting for investors in these uncertain times.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks

4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

Date
2025/08/21
Date Created
2020/08/28
Author
vinitkularni20