



Top Canadian Banks Report Solid Q3 Earnings: Will Peers Follow?

Description

Canada's third- and fourth-largest lenders, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) reported their fiscal third-quarter earnings today. The numbers came in above expectations, subsiding the Delta variant fears, at least in the short term. Notably, these results could be a precursor for the peer top Canadian banks' earnings, which will be reported this week.

Canadian banks report fiscal Q3 earnings

Bank of Nova Scotia reported \$2.56 billion in adjusted net income for the quarter ended July 31, 2021. That represents a strong 95% growth against the same period last year. It continued to contribute to provisions and set aside \$380 million for loans that could go bad.

In the earlier quarter, Scotiabank [reported](#) \$496 million in provisions. The bank could be a little extra conservative because of the recent acceleration in COVID-19 cases. It has a large exposure to the more vulnerable Latin America, where the pandemic wreaked havoc last year.

Bank of Montreal reported \$2.3 billion in adjusted net income, representing an 82% increase year over year. Importantly, it reversed \$70 million provisions for loan losses during the quarter.

The number exceeds the provisions recovery of the previous quarter, which indicates management's confidence in its asset quality and some of the impact of the Delta variant. BMO also reported strong gains from the capital markets division amid the rally in global equities.

This indicates a strong beginning of the earnings season for the Big Six Canadian banks. The biggest of them all, **Royal Bank of Canada** will report on August 25, while **Toronto-Dominion** will release its fiscal third-quarter earnings on August 26.

Will peers follow?

Canadian bank stocks have shown [a strong recovery](#) since the epic selloff last year. For example, Scotiabank stock is up more than 45%, while BMO stock has gained 70% in the last 12 months. In comparison, the **TSX Composite Index** is up 24% in the same period.

BNS stock has been relatively volatile lately than the peer Canadian bank stocks. It yields 4.5% at the moment, the highest across the board. [Dividend](#) yield soared higher as the stock traded lower. BMO currently yields 3.3%, in line with the industry average.

Dividend hikes are still in the pipeline

Last year, the Canadian banking regulator barred bank management from increasing dividends or issuing share buybacks to maintain the balance sheet strength. However, investors must be eagerly waiting for payout increases as the worst of the pandemic seems well behind us.

Notably, the conservative approach of the regulator will likely help given the uneven recovery and slower vaccination rates in many parts of the world.

An upbeat earnings season for banks also suggests a firmer economic recovery. Although we are not entirely out of the woods yet, it certainly highlights the strong upturn in the making. Things will become clearer when peer banks release their numbers in the next few days.

If peers follow and report higher earnings, markets will get a big thumbs up and the broad market rally will likely continue in the medium-term.

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2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BMO (Bank Of Montreal)
4. TSX:BNS (Bank Of Nova Scotia)

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