(DJ) 04/10 12:07AM Barron's(4/12) A Return Visit To Earlier Stories: Canadian Bank Stocks: Still Going North

(From BARRON'S)
By Dimitra DeFotis

Shares of Canada's biggest banks had a bang-up first quarter, and remain attractive, given the banks' solid balance sheets, decreasing loan losses and improving profits.

Barron's praised the nation's five biggest banks -- Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank -- in a feature last fall ("Northern Composure," Nov. 2, 2009), noting how well they had fared through the global credit crisis, especiallyin comparison with their U.S. and European counterparts.

The Canadians' shares since have returned an average of 25%, and yield an average of 3.8%. Their performance lags slightly behind that of the KBW Bank Index, a measure of 24 U.S. bank stocks that rose 30% in the same span. But the Canadian crew far outran the Standard & Poor's 500, up only 15% in that time period, and with a yield of 1.8%. That ought to disabuse anyone of the notion that things are boring up north.

Heading into the crisis, Canada's banks already were better capitalized than many global peers. Including No. 6 National Bank of Canada (ticker: NA.Canada), the group is likely to boast an average Tier 1 capital ratio of 12.5% of total assets this year, compared with around 11%, on average, for their U.S. counterparts. Return on equity could approach 17%, versus about 11% on average for big American banks.

Peter Rozenberg, an analyst at UBS, thinks that the Canadian banks will raise their dividends later this year or in 2011. He projects "low-double-digit returns" from the stocks in the next year, in addition to their yields. He has Buy ratings on the Bank of Nova Scotia, Royal Bank of Canada and Canadian Imperial, due in part to the relative health of their loan portfolios. Bank of Nova Scotia could trade up to 56 Canadian dollars from a current C$50 or so, he says, while Royal Bank of Canada could climb to C$65 from C$59. His price target on Canadian Imperial is C$78, compared with the stock's recent C$73. (The Canadian and U.S. dollar trade roughly at par now.)

Royal Bank of Canada, the country's largest banking company, booked strong trading revenue and lower loan-loss provisions in the first quarter, and an expansion of its wealth-management business could help profits. Its shares aren't cheap at 2.8 times book value and 13.5 times estimated 2010 earnings of $4.34 per share. Yet the bank's stock has been the laggard in the group, rising by around 17% since our story ran.

The best performer, Bank of Montreal, rose 32%. It is also among the most expensive, at 13.5 times expected earnings.

Craig Fehr, an analyst at Edward Jones, favors Toronto-Dominion and Bank of Nova Scotia. He underscores Scotia's potential to expand its portfolio of both personal and commercial loans, especially in Latin America, and TD's expansion potential in the U.S. (Edward Jones doesn't provide price targets.)

While U.S. bank shares are tempting at current levels, the Canadians' total returns have been better in every measurable period in the past 20 years. U.S. bank stocks are more expensive, and most don't pay investors much to wait for profits to improve. Given the northern banks' yields and growth potential, it's shades of the Olympic hockey tournament. The Canadians win again.

(END) Dow Jones Newswires
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