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Canadian Banks: 4Q Earnings 2022

Canada's biggest banks reported their fourth-quarter earnings this week, covering the three months ending Oct. 31, as analysts gauge the strength of the banking sector before heading into an expected slowdown (and possible recession) next year.

Bank of Nova Scotia, Royal Bank of Canada and Toronto-Dominion Bank topped analysts' forecasts. Meanwhile, National Bank, Canadian Imperial Bank of Commerce and Bank of Montreal fell short of analysts' expectations.

As central banks raise interest rates to slow inflation, economic fears have held bank stocks back compared with the overall market. Markets are watching these earnings closely for signs of how they will be affected in future quarters by decades-high inflation and central banks' rapid rate hikes.

Here's a breakdown of the Big Six banks' fourth-quarter earnings.

Bank of Nova Scotia

- Earnings Q4 2022: \$2.1 billion (\$1.63 per share)
- Earnings Q4 2021: \$2.6 billion (\$1.97 per share)
- Adjusted EPS \$2.06
- Analysts' expectations: \$1.99 per share (adjusted)
- Dividend: \$1.03 per share, unchanged from Q3

Bank of Nova Scotia reported a lower fourth-quarter profit as expenses increased and the bank set aside more money to cover loans that could default, but still beat low expectations on the strength of robust retail banking revenues.

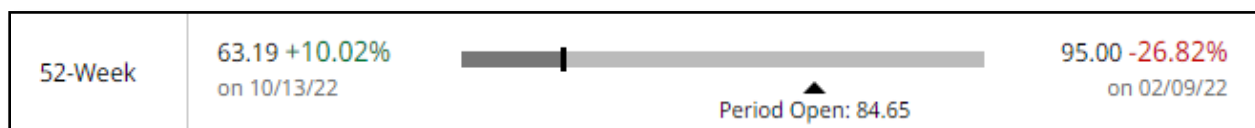
Scotiabank earned \$2.1-billion, or \$1.63 per share, in the quarter that ended Oct. 31. That compared with \$2.6-billion, or \$1.97 per share, in the same quarter last year.

The bank's fiscal fourth-quarter results included several charges that reduced earnings, including a \$340-million loss from the sale of investments in Venezuela and Thailand, a \$66-million restructuring charge and \$98-million in costs to expand the bank's Scene+ loyalty program.

On an adjusted basis, the bank said it earned \$2.06 per share, which was ahead of the \$1.99 per share anticipated by analysts, according to Refinitiv. Scotiabank kept its quarterly dividend unchanged at \$1.03 per share.

Scotiabank also earmarked \$529-million in provisions for credit losses – the money banks set aside to cover loans that may default. That was a large increase from a year ago, at \$168-million, when Scotiabank was recovering provisions it had set aside during the early months of the COVID-19 pandemic.

The bank is in the midst of a transition in leadership, as Scott Thomson prepares to be its next chief executive. He will assume the top job on Jan. 31, when current CEO Brian Porter retires.



- Long Term (12 months) Target \$ 95+/-
- Short Term (3 months) Target \$ 75 +/-
- Current Trend \$ 69+/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 4.12 (5.87%) |
| Most Recent Dividend | 1.030 on 01/03/23 |

Suggestion: If possible add to existing position

Royal Bank of Canada

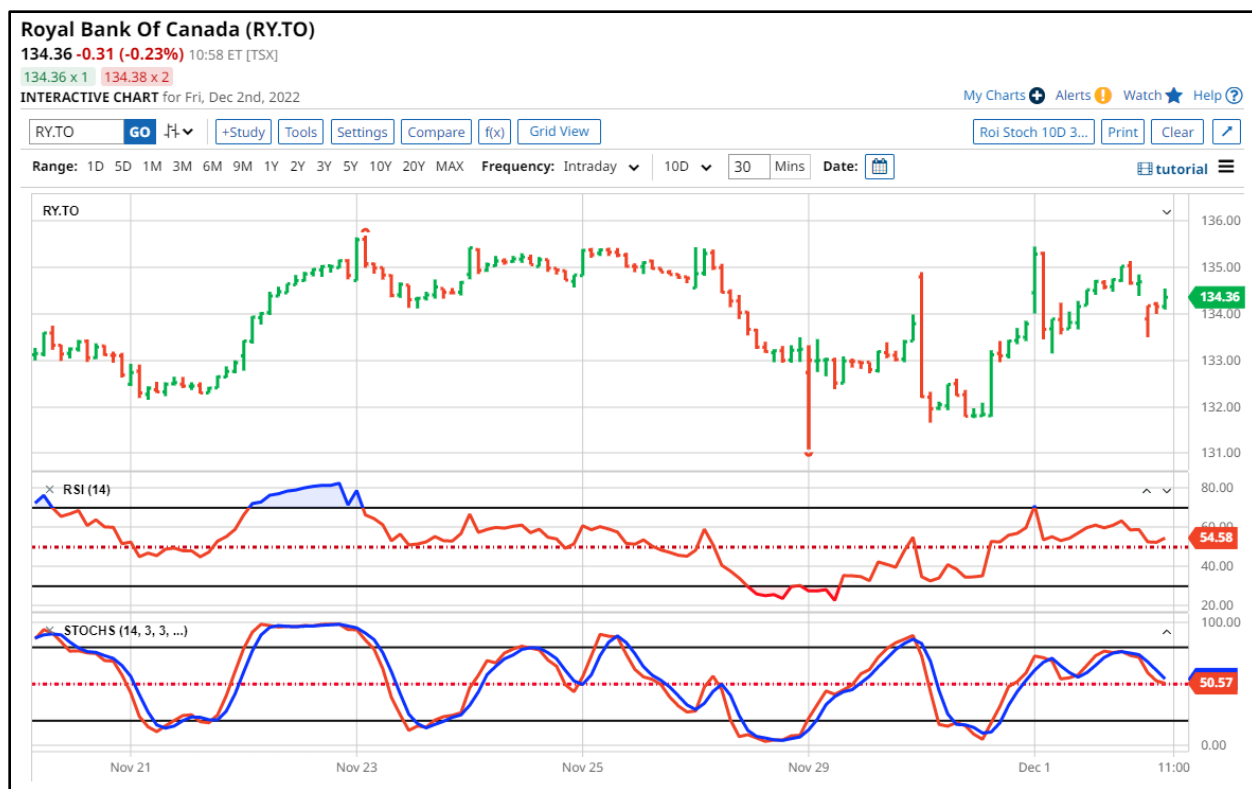
- Earnings Q4 2022: \$3.88 billion (\$2.74 per share)
- Earnings Q4 2021: \$3.89 billion (\$2.68 per share)
- Adjusted EPS \$2.78
- Analysts’ expectations: \$2.69 per share (adjusted)
- Dividend: \$1.32 per share, up 4 cents from Q3

Royal Bank of Canada reported fiscal fourth-quarter profit that was roughly unchanged from a year earlier – a day after it announced a \$13.5-billion deal to acquire HSBC Bank Canada in the country’s biggest bank deal on record.

For the three months that ended Oct. 31, RBC earned \$3.88-billion or \$2.74 a share. That compared with \$3.89-billion or \$2.68 in the same quarter last year. On an adjusted basis, RBC said it earned \$2.78 a share, above analysts’ consensus estimates of \$2.69, according to Refinitiv.

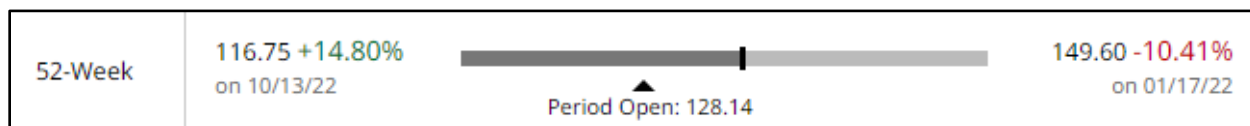
The bank also increased its quarterly dividend by 4 cents to \$1.32 per share, a three-per-cent hike.

Chief executive officer Dave McKay warned there are still several warning signs in the economy. With inflation, a potential recession on the horizon and labour-market pressures driving costs higher, “there’s a higher level of uncertainty and therefore you have higher tail risk right now,” Mr. McKay said.



- Long Term (12 months) Target \$ 145 +/-
- Short Term (3 months) Target \$ 140 +/-
- Current Trend \$ 134 +/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 5.28 (3.92%) |
| Most Recent Dividend | 1.320 on 01/25/23 |



National Bank

- Earnings Q4 2022: \$738 million (\$2.08 per share)
- Earnings Q4 2021: \$776 million (\$2.19 per share)
- Adjusted EPS \$2.08
- Analysts’ expectations: \$2.22 per share (adjusted)
- Dividend: \$0.97 per share, up 5 cents from Q3

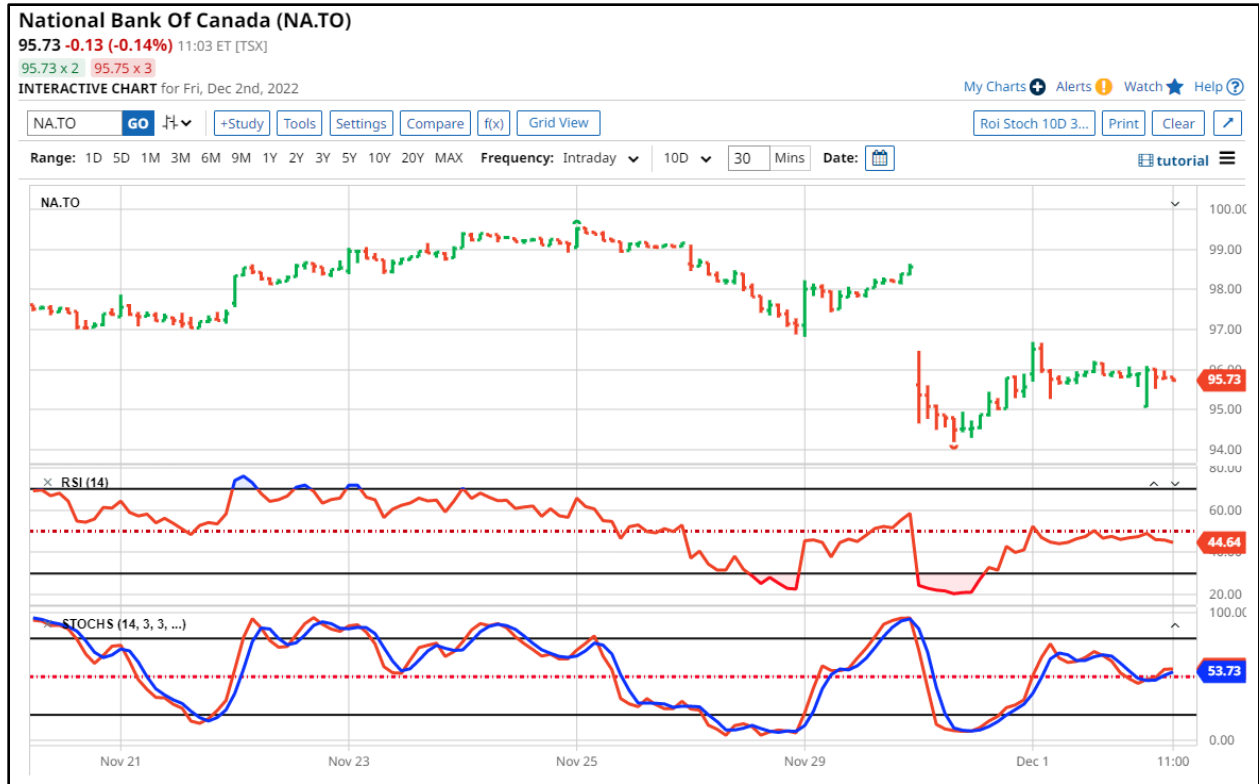
National Bank of Canada reported a 4-per-cent drop in fiscal fourth-quarter profit and raised its dividend by 5 per cent as rising provisions against loan losses outweighed strong gains in retail banking.

In the fiscal fourth quarter, National Bank earned \$738-million or \$2.08 a share, compared with \$776-million or \$2.19 a year earlier. On average, analysts were expecting earnings per share of \$2.22. For the full fiscal year, National Bank’s profit and revenue were both up 8 per cent, to \$3.38-billion and \$9.65-billion respectively.

National Bank raised its quarterly dividend by five cents to 97 cents per share, a five-per-cent increase, and announced a plan to buy back as many as seven million shares, or 2.1 per cent of total shares outstanding.

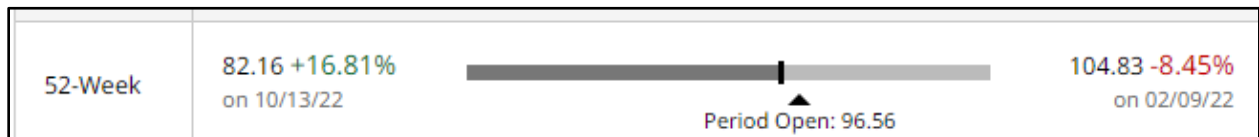
Rising provisions for credit losses weighed heavily on results. National Bank set aside \$87-million in provisions, after recovering \$41-million from its reserves in the same quarter last year.

CEO Laurent Ferreira told analysts on Wednesday that economic indicators “are moving in the right direction,” but that the bank is nonetheless keeping “a defensive positioning” and watching central banks’ tone on monetary policy.



- Long Term (12 months) Target \$ 105 +/-
- Short Term (3 months) Target \$ 100 +/-
- Current Trend \$ 95 +/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 3.88 (4.05%) |
| Most Recent Dividend | 0.970 on 12/22/22 |



Canadian Imperial Bank of Commerce

- Earnings Q4 2022: \$1.19 billion (\$1.26 per share)
- Earnings Q4 2021: \$1.44 billion (\$1.54 per share)
- Adjusted EPS \$1.39
- Analysts' expectations: \$1.72 per share (adjusted)
- Dividend: \$0.85 per share, up two cents from Q3

Canadian Imperial Bank of Commerce reported an 18-per-cent drop in fiscal fourth-quarter profit and raised its dividend as the bank was hit by higher expenses and loan loss provisions.

CIBC earned \$1.19-billion, or \$1.26 per share, in the fourth quarter. That compared with \$1.44-billion, or \$1.54 per share, a year earlier.

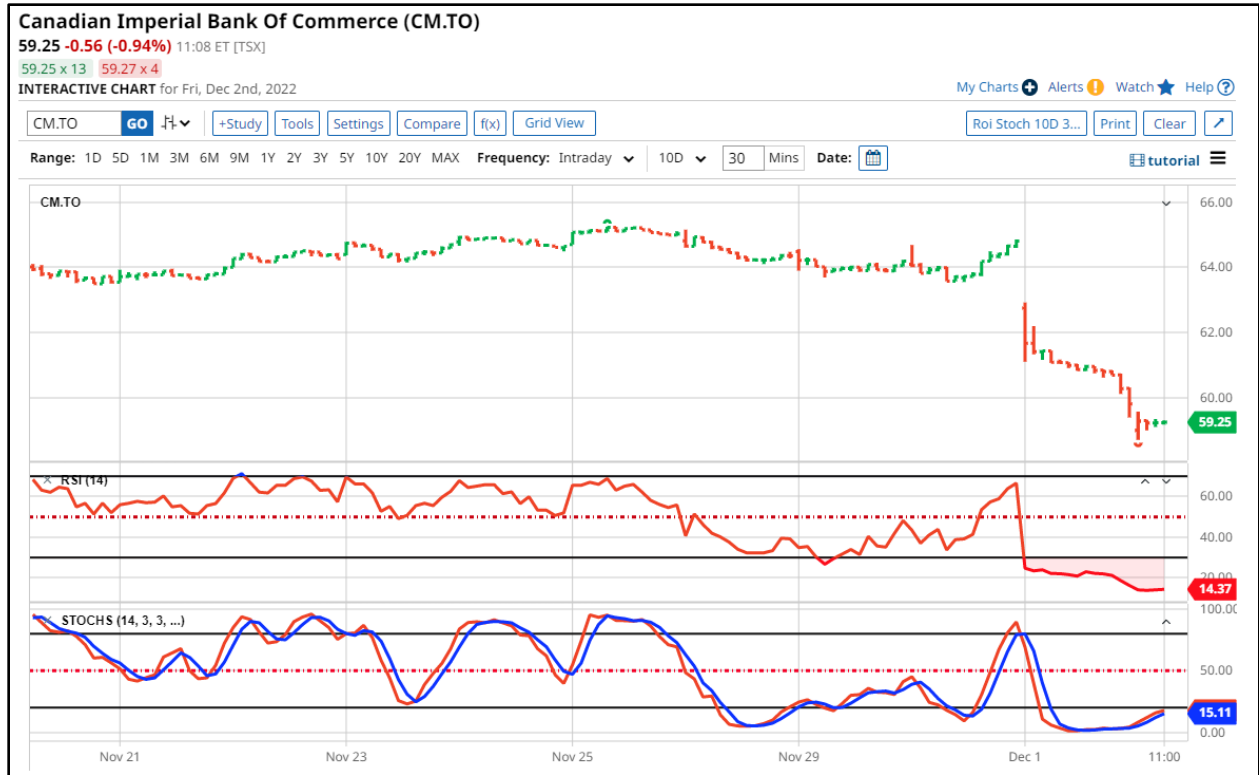
The bank's results included several **special charges**, including a \$91-million increase in legal provisions, a \$37-million charge from consolidating its real estate portfolio and \$12-million of costs related to the bank's acquisition of the credit card portfolio of retailer Costco in Canada.

"CIBC had a big miss in the quarter and, while some of it related to higher provisions on performing loans, the bank's domestic net interest margin contraction was disappointing," said John Aiken, an analyst at Barclays Capital Inc., in a note to clients.

Adjusted to exclude those items, CIBC said it earned \$1.39 per share. That was far shy of analysts' estimate of \$1.72 per share, according to Refinitiv.

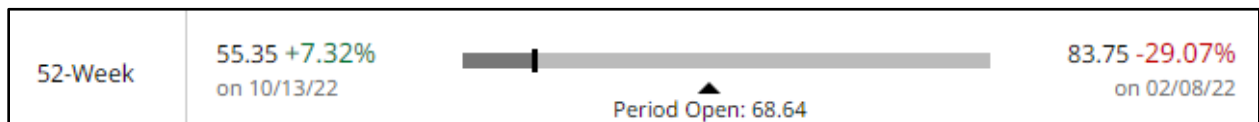
CIBC raised its quarterly dividend by two cents to 85 cents per share.

For the full fiscal year, CIBC's profit fell 3 per cent to \$6.2-billion.



- Long Term (12 months) Target \$ 80 +/-
- Short Term (3 months) Target \$ 70 +/-
- Current Trend \$ 60 +/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 3.40 (5.68%) |
| Most Recent Dividend | 0.850 on 12/23/22 |



Suggestion: If possible add to existing position

Bank of Montreal

- Earnings Q4 2022: \$4.48 billion (\$6.51 per share)
- Earnings Q4 2021: \$2.16 billion (\$3.23 per share)
- Adjusted EPS \$3.04
- Analysts' expectations: \$3.11 per share (adjusted)
- Dividend: \$1.43 per share, up four cents from Q3

Bank of Montreal reported adjusted fourth-quarter profit that fell 4 per cent and raised its dividend as higher costs and lower returns from investment and corporate banking weighed on earnings.

The bank's earnings for the quarter that ended Oct. 31 were affected by two large items. It had revenue of \$3.37-billion from a hedging strategy designed to offset the impact of interest rate changes on the closing cost of its \$17.1-billion deal to acquire California-based Bank of the West. And it took a previously-announced legal provision of \$1.14-billion after a U.S. court found the bank liable for damages in a lawsuit related to a prominent Ponzi scheme.

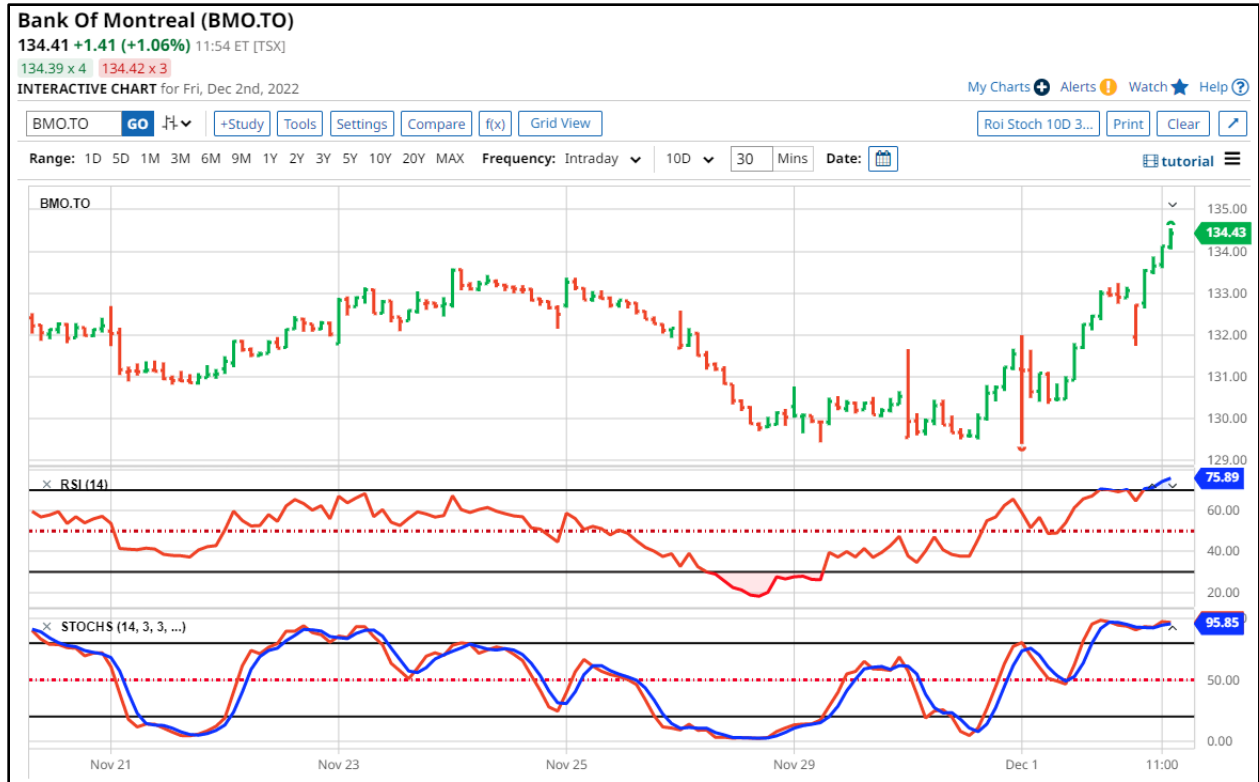
BMO earned \$4.48-billion, or \$6.51 per share, compared with \$2.16-billion, or \$3.23 per share, in the same quarter last year.

Adjusted to exclude the one-time items, BMO said it earned \$2.14-billion, or \$3.04 per share. On average, analysts expected adjusted earnings of \$3.11 per share, according to Refinitiv.

The bank raised its quarterly dividend by four cents to \$1.43 per share.

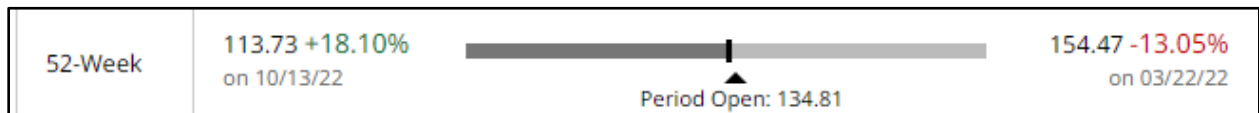
BMO's results represent "a mixed quarter," said Scotia Capital Inc. analyst Meny Grauman, in a note to clients. "There is plenty to like here despite the headline miss."

For the full fiscal year, Adjusted profit of \$9-billion was up 4 per cent.



- Long Term (12 months) Target \$ 150 +/-
- Short Term (3 months) Target \$ 140+/-
- Current Trend \$ +/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 5.72 (4.30%) |
| Most Recent Dividend | 1.430 on 01/27/23 |



Toronto-Dominion Bank

- Earnings Q4 2022: \$6.67 billion (\$3.62 per share)
- Earnings Q4 2021: \$3.78 billion (\$2.04 per share)
- Adjusted EPS \$2.18
- Analysts' expectations: \$2.07 per share (adjusted)
- Dividend: \$0.96 per share, up seven cents from Q3

Toronto-Dominion Bank reported adjusted fourth-quarter profits that beat expectations and raised its dividend as higher margins earned on loans helped drive strong retail banking returns in Canada and the U.S..

Its results were helped by a favourable tax rate, and included two large items that boosted results: a \$2.3-billion gain on an interest-rate hedging strategy tied to its US\$13.4-billion acquisition of First Horizon Corp., and a \$997-million gain on the sale of shares in Charles Schwab Corp.

TD earned \$6.67-billion, or \$3.62 per share, compared with \$3.78-billion, or \$2.04 per share, in the same quarter last year.

After adjusting for special items, TD said it earned \$4.07-billion, or \$2.18 per share. On average, analysts expected adjusted earnings per share of \$2.07, according to Refinitiv.

TD raised its quarterly dividend by 7 cents to 96 cents per share.

Margins have been a focal point for analysts and investors this quarter as a key support for banks' earnings, faced with an array of economic headwinds.

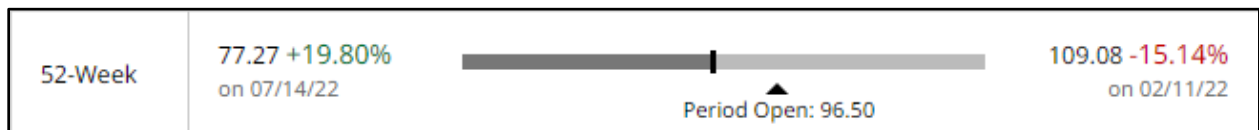
"If rates continue to rise then you would expect that to be helping margins," said Kelvin Tran, TD's chief financial officer, in an interview. "But that also depends on the competitiveness of the loan pricing."

For the full fiscal year, TD's adjusted profit was up 5 per cent to \$17.43-billion.



- Long Term (12 months) Target \$ 110 +/-
- Short Term (3 months) Target \$ 100 +/-
- Current Trend \$ 93 +/-

| | |
|-------------------------|-------------------|
| Annual Dividend & Yield | 3.56 (3.88%) |
| Most Recent Dividend | 0.890 on 10/06/22 |



RY to Acquire HSBC Canada

Royal Bank of Canada, or RBC (RY) announced that it will acquire HSBC Canada, the Canadian operations of HSBC Group, for \$13.5 billion in cash. HSBC has been selling off some of its other foreign units over the years and it was known that HSBC Canada was on the block. We think it's clear that a domestic Canadian bank would be a more cost efficient owner of this franchise, given clear opportunities for cost cutting. It is very hard for foreign banks to compete effectively in Canada and scale up in any significant way. This was clear to us as RBC plans to cut \$740 million of expenses, or roughly 55% of HSBC's estimated 2024 expense base.

With regards to price, it had been rumored that the price tag for HSBC Canada could range from \$8 billion to \$10 billion, so RBC's price of \$13.5 billion was on the higher end of original estimates. If we look at estimated 2024 earnings of \$1.4 billion and the \$1 billion in integration costs, and we assume minimal growth, we think the bank may create between \$0 to \$4 in per share value, which isn't material relative to our current fair value of \$141 per share. As such, we do not plan to materially change our fair value in response to this announcement.

Aside from being a more efficient owner, we think there are some questions around the strategic benefits of the acquisition. On the one hand, RBC is acquiring a decent client base with the transaction.

HSBC Canada was a profitable bank and has a healthy mix of commercial and affluent wealth clients, all of which is generally complementary to RBC's capabilities and will help the bank gain additional share. However, the "globally connected" nature of HSBC's clients and the fact that these clients had chosen HSBC in the first place make us wonder if there is not some retention risk as RBC takes over. Managing this retention risk will be key, in our view. RBC highlighted the ability to use some of HSBC's technology and products to add more global capabilities to the existing RBC product pool, along with a partnership with HSBC Global, however we see retention and execution risks nonetheless.

We'll also highlight some regulatory risk to the deal. Regulators have given some signs in the past that they don't want the Canadian banking industry to become more concentrated. Technically, this transaction would make the industry more concentrated, however it would only be a slight change. HSBC Canada has just under 2% of total assets within the Canadian banking system, while RBC has roughly 24%, and the combined entity would have just over 25%. We think there is a decent chance that regulators don't balk at RBC going from 24% to 25% of total assets of the banking system.

(Source: Morningstar)