THE GLOBE AND MAIL

Big Six banks' earnings results to get a lift from hot markets

JAMES BRADSHAW - BANKING REPORTER
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What a difference a year makes for Canada's banks.

The Big Six begin reporting their fiscal first-quarter earnings this week, launching into 2017 with a decidedly more hopeful outlook. At this time last year, oil prices had plunged to rock-bottom levels near $30 (U.S.) a barrel, leaving portfolios of energy-related loans mired in uncertainty. And that was before Britain decided to leave the European Union and U.S. voters placed Donald Trump in the White House.

After the banks delivered solid fourth-quarter results to close out 2016, expectations for growth in their domestic operations were muted. Yet the outlook for the new year is looking upbeat, thanks in large part to a rebound in oil prices and the promise of rising interest rates in Canada and the United States, which should help the banks earn better net-interest margins.

"We are expecting good things" from the first quarter, said Robert Sedran, an analyst at CIBC World Markets Inc., in a research note. "On balance … it should be a good result."

Even so, there are warning signs in the economy, from high consumer debt and continued volatility in the oil-producing provinces to overstretched housing markets in Toronto and Vancouver – as well as political uncertainty from a trade-skeptic Trump administration.

Canadian Imperial Bank of Commerce kicks off earnings season on Thursday, followed by Royal Bank of Canada on Friday. Bank of Nova Scotia and Bank of Montreal report on Feb. 28, National Bank of Canada follows on March 1, and Toronto-Dominion closes out the run of results from the big banks on March 2.

Here are three things worth watching:

Dividend hikes
Analysts say TD, Scotiabank and RBC are the banks most likely to boost quarterly payouts to shareholders in the current earnings season.

The hike at TD could be "supersized," according to John Aiken, an analyst at Barclays Capital Canada Inc., in keeping with TD's habit of boosting its dividend only annually. RBC and Scotiabank, by contrast, have kept up "an every-other-quarter pattern," Mr. Sedran said, so potential increases may be more modest.

At this time last year, TD announced a dividend increase of four cents (Canadian) a share, taking the quarterly payout from 51 cents to 55. RBC and Scotia raised their dividends twice last year, each time by two cents a share.

Higher payouts are supported by the strong capital ratios the big banks have maintained, but the slow-growth environment in Canada remains a limiting factor through the balance of the year, meaning dividend growth could closely track earnings growth.

“We believe that dividend hikes will be more measured and modest over the near term,” Mr. Aiken said.

Credit quality
Over all, analysts expect provisions for credit losses set aside by the largest banks to climb by 8 per cent to 9 per cent, compared with the prior year.

The worst fears have eased about a spillover from the recession in Alberta brought about by lower oil prices. The price of West Texas Intermediate crude oil has climbed back above $53 (U.S.), which has lessened concern about losses on consumer loans in the region.

“Not boom times, but despite its 8.8 [per-cent] unemployment rate, the outlook for Alberta has improved and the banks showed last year that they have taken a measured approach in lending to the energy sector,” Mr. Sedran said.

That doesn’t mean lenders are out of the woods yet. Investors will watch closely for banks’ updates about the health of corporate loans to the energy sector, for signs of rising delinquencies on personal loans or credit-card debt, or any slowdown in the growth rate for mortgage lending.

“We maintain that the full impact from sustained, low oil prices has yet to fully play out on Canada’s economy, and more specifically its impact will continue to weigh on employment over the near term,” Mr. Aiken said.

Busy capital markets
Higher interest rates and the sharp upturn in stock markets after the U.S. election led to more activity in capital-markets divisions, and the Canadian banks’ results for the fiscal first quarter should capture some of the action. (The fiscal year for banks began Nov. 1, one week before the vote.)

“We forecast a strong start to the year as the timing of the U.S. election made for a good trading environment,” Mr. Sedran said.

Two of the largest U.S. banks, JPMorgan Chase & Co. and Bank of America Corp., reported double-digit gains in fixed-income trading during their fiscal fourth quarters, which wrapped up Dec. 31. The U.S. bank results are an imperfect way to predict what will happen in Canada, but are seen as an encouraging sign.

Darko Mihelic, an analyst at RBC Dominion Securities Inc., estimates that trading revenues for Canadian banks will be up 1 per cent from the fourth quarter, but down 1 per cent from the first quarter of 2016. That’s still a substantial improvement from RBC’s earlier forecast of a 5-per-cent drop year-over-year.

Follow James Bradshaw on Twitter: @jembradshaw

Bank earnings season

BANK	Q1 2017 ESTIMATE	Q1 2016 RESULT	REPORT DATE
RBC	$1.76	$1.61	Feb. 24
TD	$1.27	$1.17	March 2
Scotiabank	$1.57	$1.43	Feb. 28
BMO	$1.89	$1.60	Feb. 28
CIBC	$2.57	$2.40	Feb. 23
Nat'l Bank	$1.26	$1.16	March 1

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