



Royal Bank of Canada vs. Canadian Imperial Bank of Commerce: Which Belongs in Your Portfolio?

Description

They are not only two of Canada's biggest banks, but also two of Canada's biggest companies. And for that reason, many people make **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)) or **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) a staple in their portfolios.

But which one is the better option? Below we take a closer look at each.

Royal Bank of Canada: The world conqueror

It's actually quite sad that so few Canadian companies are leaders in their respective industry worldwide. But RBC is certainly one of them, with a wealth management business that ranks in the world's top 10 for assets under management, and a capital markets business that ranks in the top 10 for investment banking revenue.

RBC has been doing very well in these areas, and to understand why, you'd have to look back more than five years. In the time leading up to the financial crisis, the bank was quite conservative, and was even criticized for it. More aggressive banks like **The Royal Bank of Scotland** were expanding aggressively, and according to one observer from *The Globe and Mail*, upstaging Canadian banks like RBC.

But RBC's prudence allowed the bank to survive the crisis very much intact. Meanwhile, RBS got hammered. Since then, RBS has been in full retreat, while RBC has been on the offensive. A perfect example occurred in 2012, when RBS sold a piece of its private banking business to RBC.

So at this point, RBC is really firing on all cylinders, yet is trading for only 13.5 times earnings. It's not a bad deal for a company that's on offence and making all the right moves.

Canadian Imperial Bank of Commerce: Back to basics

Unfortunately for Canadian Imperial Bank of Commerce and its shareholders, the bank had a very different experience during the crisis. An aggressive (some would say arrogant) attitude towards the

United States left the bank dangerously exposed to the subprime market. What followed was \$10 billion in write-downs, and a retreat to plain old Canadian banking.

But there is good news: CIBC is as healthy as ever. Profitability is strong, with a return on equity in the low 20s. The bank is also very well-capitalized. And Canadian banking should be stable enough to support consistent earnings for many years, even if our housing market suffers a correction.

Better yet, CIBC trades for only 12.5 times earnings, and sports a dividend yield of nearly 4%.

So should you choose CIBC over RBC? Well, that depends on your priorities. If you prefer stability and a big dividend yield, then you should go with CIBC. But if you're looking for a strong company, with excellent growth prospects and a solid track record, then RBC is your answer.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)

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