Which Should You Buy: Toronto-Dominion Bank or Canadian Imperial Bank of Commerce?

Description

Some of you may remember that back in the 1990s **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) and **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) tried to merge. The attempt was blocked by then-Finance Minister Paul Martin.

Today, the two banks could not be more different. TD famously dodged the financial crisis, while CIBC got caught right in the middle. TD is pursuing growth in the United States, while CIBC is content to focus on Canada. And TD trades at 15 times earnings, while CIBC trades at just over 12 times.

So after attempting to be one and the same, these two banks have ended up as polar opposites. But which one should you add to your portfolio? Below we take a look.

The case for TD

There are two arguments for going with TD shares. One is the company's track record and the other is the bank's U.S. exposure.

The first argument is more compelling. Since 2002, the company has done a lot of things right, building a fantastic banking franchise in Canada. TD consistently ranks number one for customer satisfaction in Canada, and profitability is incredibly high too. Down in the United States, TD's decision to avoid the subprime market earned CEO Ed Clark unanimous praise.

Other people own TD as a way to bet on a recovery in the United States. As it stands, TD has excess deposits in the United States; not enough qualified businesses or people want to borrow money. As a result, the bank has trouble earning a decent return on its capital. That could easily change as the economy improves.

The case for CIBC

The case for TD – strong track record and growth prospects – cannot be made for CIBC. In fact, CIBC was more burned by the financial crisis than any other big five bank, and also has fewer growth prospects. So why would anyone want to own the shares?

There are two arguments in favour of CIBC. One is that its focus on Canada is an advantage. While growth is hard to come by in this market, Canadian banking is very profitable and stable.

The second argument concerns price – CIBC shares trade much more cheaply than TD’s shares, at just over 12 times earnings. As a result, CIBC also has a higher dividend yield. Better yet, if CIBC continues with its stay-at-home strategy, then eventually it should devote more of its earnings to dividends. And considering how popular dividends are, that should be good news for shareholders.

The verdict

At this point, an investment in CIBC likely makes more sense; TD’s growth prospects in the United States do not justify its premium valuation. If you’re looking to make a bet on the U.S., you may want to look at an American bank instead.

CATEGORY

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