



Which Bank Should You Choose: The Bank of Nova Scotia or Canadian Imperial Bank of Commerce?

Description

When building a Canadian equity portfolio, it often makes sense to start with one of the Big 5 Canadian banks. After all, they operate with little competition, make plenty of money, and are well capitalized. It's no fluke that they've all stood the test of time. But which is the right one for your portfolio?

Below, we take a look at two of them — **The Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)). I'll spare you the suspense: The Bank of Nova Scotia is the better option, and here are three reasons why.

1. Track record

Whenever you hear of a major financial blow-up, CIBC always seems to be caught in the middle of it. The most recent example was the financial crisis, which led to \$10 billion in write-downs. Before that, there was the Enron debacle. And there are many other examples, too. It's no surprise that CIBC has been dubbed the bank "most likely to run into a sharp object."

Meanwhile, The Bank of Nova Scotia has mostly managed to avoid such mistakes. On occasion, it has been caught up in another country's troubles, such as Mexico's in the mid-1990s or Argentina's in 2002. But the losses have been relatively minor.

It's true that CIBC has made great strides in cleaning itself up. But over the long term, you want the bank with the better long-term track record.

2. Better growth prospects

In response to the mishaps, CIBC has dedicated itself to getting simpler. Put another way, that means focusing on Canada. To illustrate, last year CIBC made 65% of its net income from Canadian banking. When including other business lines, a total of 83% of net income came domestically. To the bank's credit, it is now safer as a result, but growth prospects are very limited.

Meanwhile, The Bank of Nova Scotia is Canada's most international bank. Last year, Canadian

banking accounted for just 34% of total income, and Canada overall barely accounted for 50%. The rest mostly came from emerging markets, especially Latin America, so The Bank of Nova Scotia has much more ability and freedom to grow earnings than CIBC. Best of all, The Bank of Nova Scotia is focused on countries like Chile, Peru, Mexico, and Colombia, all of whom have healthy, growing economies.

3. Price

The Bank of Nova Scotia has a better track record and more growth prospects than CIBC, so surely the former is more expensive, right? Wrong.

According to Morningstar, CIBC trades at 12.9 times earnings, while The Bank of Nova Scotia does so at 12.3 times earnings. This is partly due to some weakness in emerging markets stocks early in 2014. Also The Bank of Nova Scotia's most recent quarterly numbers were a bit weak.

These, however, aren't acceptable reasons for The Bank of Nova Scotia to trade at a discount to CIBC. So when choosing between the two stocks, the choice should be clear.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
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