2 Big Reasons to Buy Toronto-Dominion Bank and Canadian Imperial Bank of Commerce

Description

Back in the late 1990s, **Toronto-Dominion Bank** (TSX: TD)(NYSE: TD) and **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) tried to merge. Since then, the two banks have had very different fates.

TD has been very successful, especially over the past 10 years. It managed to dodge the worst of the financial crisis, even while expanding heavily into the United States. It also built up a wonderful Canadian banking franchise, one that emphasizes extraordinary customer service and prudent risk management. A $10,000 investment in TD stock 10 years ago would be worth nearly $26,000 today.

The waters have been much choppier for CIBC. The bank got in too deep with Enron, and the resulting fallout cost then-CEO John Hunkin his job. Then came the financial crisis, which resulted in $10.7 billion in write-downs for the bank from 2007-2009. That same $10,000 investment in CIBC would today be worth less than $18,000.

But when looking ahead, there are strong arguments for owning both of them.

2 big reasons to own TD and CIBC

1. The Canadian retail business

Although hard to believe, banking can be both profitable and low-risk. This is especially the case in Canada, and TD offers a perfect example. To illustrate, its Canadian banking division earned an average 42.2% return on equity from 2011 to 2013, a staggering figure. Better yet, Canadians have become increasingly loyal to their bank, which makes TD's market share that much safer.

Meanwhile, CIBC has focused increasingly on its Canadian business in an attempt to decrease its risk. And the plan appears to be working. Last year, Canada accounted for nearly 70% of adjusted income, and nearly 92% of total loans. It's no coincidence the bank earned an adjusted return on equity of 22.3%, the highest of any big bank.

2. Limited exposure to Canadian real estate

Canadian banking is not without risk, and the biggest one nowadays is the country's real estate sector. Many are worried that a collapse in house prices could spell big trouble for the Canadian banks. But CIBC and TD both have ways of mitigating the risk.

In TD's case, the company has a very large US business, which cushions the blow from any downturn in Canada. In fact most Canadians don't realize that TD has more branches in the US than in Canada.

In CIBC's case, the story is a little more nuanced. Although the bank has plenty of mortgages on its books, mortgages are not as risky as they first appear. In fact history has shown that personal loans (such as credit cards) and commercial loans are far riskier over the cycle. This was the case 20 years ago, during the last real estate downturn, and it remains the case today. So CIBC's concentration in mortgages actually helps makes it safer.

That being said, you're likely best off buying shares another top bank. The free report below tells you which one.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Investing

Date
2025/09/14
Date Created
2014/10/17
Author
bensinclair