Toronto-Dominion Bank vs. Canadian Imperial Bank of Commerce: Which Is the Safest Investment?

Description

Toronto-Dominion Bank (TSX: TD)(NYSE: TD) and **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) have placed a strong focus on Canadian retail customers but they have different approaches when it comes to the long-term growth of the business.

Let's take a look at both companies to see if one offers investors a safer bet in the current environment.

Toronto-Dominion Bank

TD is truly a banking giant. With a market cap of more than $100 billion, Toronto-Dominion is Canada's second-largest bank.

The company operates what is arguably Canada's top retail banking operation. TD consistently wins customer service awards, and its deposit franchise is unmatched in the industry.

As with most of the Canadian banks, TD reported solid results for the quarter ended July 31, 2014. Net income came in at $2.1 billion with the Canadian retail operation delivering $1.4 billion, a 54% year-over-year increase. Strength was seen in all areas of the Canadian retail business, including insurance.

While the Canadian retail operations are the jewel in TD's crown, the 1,300 U.S.-based branches might be the key to TD's future growth. In fact, TD is now ranked as one of the top 10 U.S. banks. In the last report, TD said the U.S. operation earned US$518 million, a 4% gain.

TD finished the last quarter with a Basel III Common Equity Tier 1 (CET1) ratio of 9.3%. This is at the lower end of the Big 5 banks. As of July 31, TD held $231 billion in Canadian retail mortgages. The company said 63% of the portfolio was insured. The loan-to-value (LTV) ratio on rest was 61%.

TD currently trades at 13.8 times earnings and pays a dividend of $1.88 per share that yields about 3.4%.

Canadian Imperial Bank of Commerce

Investors often overlook CIBC because it is the smallest of the Big 5 banks. With a market cap of $41 billion it is less than half the size of TD. The company also has a reputation for making big mistakes. During the financial crisis, CIBC took $10 billion in write-downs connected to bad bets on the U.S. housing market.

Since then, the company has refocused on its Canadian retail business. CIBC used to rely heavily on brokers to drive mortgage growth but the company is now initiating more of that business through the branches. CIBC is also a leader in mobile banking with its eDeposit service. The new credit card partnership with **Tim Hortons Inc.** is another example of the company's efforts to build closer relationships with Canadian retail customers.

Victor Dodig, CIBC's new CEO, said he plans to spend as much as $2 billion to expand the wealth management group. This isn't a new initiative, but the size of the potential investment indicates where the company sees the best opportunities for revenue growth. In the last quarter, the wealth management division reported year-over-year net income growth of 19%, supported by earnings from the 2013 purchase of U.S.-based wealth manager Atlantic Trust.

As of July 31, CIBC said it had a CET1 ratio of 10.1%. The company also reported $103.8 billion in residential mortgage holdings. About 69% of the portfolio was insured. The LTV ratio on the rest was 59%.

CIBC trades at 13.1 times earnings and pays a $4.00 per share dividend that yields about 3.9%.

As long-term holdings, both companies are good investments. The concern right now for investors is that the Canadian retail market might be pretty much tapped out and fears continue to grow about the bursting of a Canadian mortgage bubble. If that happens, CIBC would probably suffer more than TD due to its smaller size and larger reliance on Canadian retail for earnings.

The free report highlighted below expands on some of the issues investors should consider before buying the Canadian banks.

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