



Bank of Montreal vs. Canadian Imperial Bank of Commerce: Which Is the Safest Investment?

Description

Bank of Montreal ([TSX: BMO](#))([NYSE: BMO](#)) and **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) have made some interesting strategic moves in the past few years. So far, they have worked out well.

As concerns continue to grow about Canadian housing prices, it's important for new investors to analyze all the banks very carefully before committing their money.

Let's take a look at Bank of Montreal and CIBC to see if one is a safer investment right now.

Bank of Montreal

Bank of Montreal has made it very clear where the company thinks the best opportunities are for future growth. In May 2014, BMO spent \$1.3 billion to acquire U.K.-based F&C Asset Management to get a foothold in the European market. The deal positions BMO well to take advantage of an economic rebound in Europe and helps diversify revenue streams from both a business unit and geographic perspective.

Bank of Montreal's biggest bet is in the U.S. midwest. The company originally entered the market in the early 1980s and has slowly built a solid brand in the manufacturing-heavy region. BMO Harris Bank got a lot bigger in 2011 when Bank of Montreal spent \$4.1 billion to buy Wisconsin-based Marshall and Ilsley Corp.

The acquisition was a bold move, especially in 2011, but the deal is already bearing fruit. In Bank of Montreal's earnings statement for the quarter ended July 31, the company reported earnings of \$147 million from the U.S. operations, driven by solid growth in the commercial banking unit. The U.S. operation is doing well despite heavy competition and low interest rates.

In Canada, margins are good, but investors are concerned about the possibility of a bubble in the housing market. Bank of Montreal had \$97.1 billion in Canadian residential mortgages on the books as of July 31. Insured mortgages represented 64% of the portfolio and the loan-to-value (LTV) ratio on the

remaining mortgages was 58%.

BMO is well capitalized. The company reported a Basel III Common Equity Tier 1 (CET1) ratio of 9.6% as of July 31.

Bank of Montreal trades at 12.9 times earnings and pays a \$3.12 per share dividend that yields about 3.8%. It's market cap is about \$54 billion.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce took massive write-downs during the financial crisis as a result of bad bets on the U.S. housing market. Since then, the company has cleaned up its balance sheet and refocused its efforts on the Canadian market. The decision has been a profitable one.

Now, CIBC's new CEO, Victor Dodig, plans to use his experience as the former head of the wealth management division to continue expanding that area of the bank. Dodig said he is looking to spend up to \$2 billion on acquisitions in the wealth management sector to help drive revenue growth.

In 2013, CIBC bought U.S.-based wealth manager, Atlantic Trust. The deal has worked out well. For the quarter ended July 31, CIBC reported year-over-year earnings growth of 19% in the wealth management operations.

At the end of July, Canadian Imperial Bank of Commerce held \$103.8 billion of Canadian residential mortgages. Insured mortgages represented 69% of the portfolio and the LTV on the remaining loans was 59%.

CIBC is also well capitalized. The CET1 ratio was 10.1% as of July 31.

Canadian Imperial Bank of Commerce trades at 13.3 times earnings and pays a \$4.00 per share dividend that yields about 3.8%. It's market cap is about \$41 billion.

Which should you buy?

Bank of Montreal's U.S. operations help diversify the company's income stream and BMO carries a smaller portfolio of Canadian mortgages than CIBC. Bank of Montreal is also about 30% larger on a market cap basis, and should hold up better in the event of a meltdown in the Canadian housing market. With the two stocks trading at about the same P/E ratio and paying comparable dividends, BMO is probably the safer bet at the moment.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CM (Canadian Imperial Bank of Commerce)

Category

1. Bank Stocks
2. Investing

Date

2025/09/14

Date Created

2014/11/24

Author

aswalker

default watermark

default watermark