Should You Hold Bank of Montreal or Canadian Imperial Bank of Commerce in 2015?

Description

Last year was generally a successful one for **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), Canada's fourth and fifth largest banks, respectively.

Bank of Montreal shares gained 16% last year, higher than any of Canada's other big five banks. The company delivered strong results throughout the year, driven by record Canadian banking earnings, improving trends in the United States, high returns from capital markets, and strong underlying growth in wealth management.

While CIBC shares didn't perform quite as well, the company did go through a smooth CEO transition, and its numbers were also very respectable.

That said, which bank should you hold in 2015? Below we take a look at the two options.

The case for Bank of Montreal

There's no denying that 2014 was a great year for Bank of Montreal. But there are still a couple of areas where the news could get even better.

For one, expenses in Canadian banking total 50% of revenue. Meanwhile, peers such as **Toronto-Dominion Bank** are able to keep expenses below 45% of revenue in Canada. This is partly because Bank of Montreal has limited market share in Canada, and thus enjoys fewer economies of scale than its larger rivals. But there's undeniably room for improvement on the cost side.

More promising is the continued economic recovery in the United States, which could give a big boost to Bank of Montreal's business there. The news gets better – with energy prices so low, the country's manufacturing sector becomes even more competitive. And with Bank of Montreal concentrated in the midwest, where manufacturing plays a key role, the bank stands to benefit from this trend.

At just over $80 per share (as of this writing), the stock trades at about 12.5 times earnings. That's not bad for a company performing as well as Bank of Montreal.

The case for CIBC

At first glance, CIBC seems less appealing than Bank of Montreal. It has a spotty track record at best, it’s not well-liked by customers, and its revenue is concentrated in Canada. But is it really such a bad stock to own?

One thing to like about CIBC is the price. At just below $98 per share, the stock trades at about 11 times earnings. Secondly, the bank has refocused itself on the Canadian market in recent years, so its misadventures in American subprime mortgages are long gone. And finally, the bank is growing nicely here in Canada, led by the Aventura and Tim Hortons credit cards.

The bank also has a nice dividend, currently yielding 4.2% after being raised by 3% late last year.

So what should you do?

At this point, CIBC is a great option for anyone looking for a reliable dividend. The bank has clearly moved on from its troubled past, and is now chugging along quite nicely in a low-risk environment.

As for Bank of Montreal, it is also doing some things very well. But there are better ways to bet on the United States at this point. I would avoid the shares.

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