# Why You Should Pay Up for Toronto-Dominion Bank Instead of Buying Canadian Imperial Bank of Commerce

## Description

In today's uncertain environment, you'll find some very divergent views on Canadian banks. On one hand, pessimists point to an over-inflated housing market, the oil rout, declining interest rates, and increasing competitive pressures.



On the other hand, optimists point to history—after all, the banks have been safe bets for many years, and have (mostly) done a great job persevering through the difficult times. Furthermore, the banks trade at very reasonable multiples, resulting in great dividend yields.

Both sides have their points. So, should you go ahead and buy some bank stocks? Well, to answer this question, it's worth looking at the differences between the banks themselves. To illustrate this difference, we compare **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

**CIBC: Completely tied to the Canadian market**

If there's any big five bank that's completely tied to the Canadian economy, it's CIBC. Last year, 92% of the bank's net income came from Canada. This could have all sorts of negative consequences. If the oil market continues to suffer, then CIBC's loan losses could increase dramatically, and Capital Markets revenue could dry up. Making matters worse, loan growth would be hard to come by, and sinking stock prices would cause wealth management revenue to decline.

This makes CIBC one of the scariest banks to own and its share price has reflected this. Just look at what's happened since November 27, the day the oil market really went into a free fall—CIBC shares have declined by about 10%, the worst performance of any big five bank stock.

On the bright side, this has made CIBC shares fairly cheap if you're looking for a bargain. Based on the latest numbers, the shares trade at about 11 times adjusted earnings, and the dividend yields a tasty 4.3%. So, is this trade-off worth it? To answer this question, let's take a look at TD.

**TD: Pay a little more, get a much better bank**

At first glance, TD's shares seem more expensive than CIBC's. After all, TD's shares have outperformed all other big five bank stocks since November 27. TD also trades for about 13 times adjusted earnings, and the dividend still only yields 3.7%, despite a recent hike to the payout.

That said, TD is still more of a bargain than CIBC. The biggest reason is TD's presence in the United States, which accounts for over a quarter of total loans (and this ratio has been increasing). This should be a big boost to TD and its shareholders—the American economy is firing on all cylinders, and is benefiting greatly from the oil slump.

Even within Canada, TD has less exposure to the oil sector than CIBC does. Better yet, TD has a much better track record of dealing with risks than CIBC. TD's shareholders simply have a lot less to worry about. In my opinion, this is worth the slightly higher price.

**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)



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