Which Stock Is a Better Bet for Dividend Investors: Royal Bank of Canada or Canadian Imperial Bank of Commerce?

Description

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Banks are staples in investor portfolios…and for good reason.

These companies are storied financial institutions, earn steady profits, and crank out reliable dividends. And unless folks return to a system of barter to exchange goods and services, I don't expect that tradition to end anytime soon.

That's why it can be tough to choose between these firms. So, today we're tackling two of the most popular—**Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Which stock is a better bet for income investors? Let's see how the two companies stack up on a range of measures.

1. Yield: Canadian banks are adored by dividend investors for their big payouts. Of the group, CIBC sports the highest with a current yield of 4.5%. So, if you're looking for current income, this stock is your first choice. *Winner: CIBC*

2. Dividend growth: If only researching dividend stocks were as simple as picking out the ones with the highest yield. Sadly, we have to dig much deeper than that. Dividend growth is also important because we want to ensure our income stream can keep up with inflation over time.

While CIBC's current yield is impressive, the firm has only increased its dividend by 6% per year in the past decade. RBC, by comparison, has hiked its payout at an impressive 10.7% annual clip during the same period. *Winner: RBC*

3. Earnings growth: Future dividend hikes will depend mostly upon growing profits. And while the big banks are mature businesses, they're still expected to crank out reasonable growth. Analysts project that RBC and CIBC will both be able to grow their earnings per share by about 7% annually over the next five years. *Winner: Draw*

4. Dividend history: For dividend investors, reliability is essential. After all, for those of us who rely on dividends to pay the bills, there's nothing worse than watching our stream of income dry up. That said, Canadian banks are some of the most reliable dividend payers around. CIBC and RBC have paid distributions to shareholders every year since 1868 and 1870, respectively. *Winner: CIBC*

5. Safety: Can we expect that tradition to continue? Probably. Every year, *Bloomberg Markets Magazine* ranks every bank in the world based on factors like reserves and loan quality. In the publication's most recent survey, CIBC and RBC were ranked as the 15th and 18th soundest banks in the world, respectively. *Winner: CIBC*

6. Diversification: Pre-2008, a lot of investors believed a bank was a bank. But over the last seven years, you've seen a big divergence in strategies. If the Canadian economy slows down as many fear, diversification could pay off big.

Earnings at RBC, for example, have been driven more by other businesses, including its lucrative capital markets division. However, CIBC has remained focused on Canadian retail after a series of setbacks south of the border. *Winner: RBC*

7. Valuation: As worries about a slowing economy weigh on equities, bank stocks have sold off hard. Today CIBC and RBC trade at 9.8 and 11.5 times forward earnings, respectively. That's well below their historical averages, though in line with peers. *Winner: CIBC*

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And the results are in…

You really can't go wrong adding any Canadian bank to your portfolio. That said, CIBC has the slight edge in my books, given its bigger yield and cheaper valuation. If you can only own one bank, this is the stock to hold.

CATEGORY

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)

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