



Is Toronto-Dominion Bank a Safer Dividend Investment Than Canadian Imperial Bank of Commerce?

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) are rallying this month. Let's take a look at the two companies to see which one deserves to be in your portfolio.

Toronto-Dominion Bank

Toronto-Dominion Bank is up 12% since the middle of January, and a solid 5% in just the past four weeks. The surge has caught many investors by surprise because TD and its peers were expected to struggle this year.

Last fall management said TD was facing some market headwinds, but the Q1 2015 results suggest things are rolling along just fine. The company had earnings of \$2.1 billion for the quarter that ended January 31, a solid 5% gain over the same period in 2014.

TD's Canadian operation is a well-oiled machine and produced \$1.4 billion of overall Q1 net income. With many Canadians up to their eyeballs in debt, TD still manages to find a way to deliver strong loan and deposit growth.

The U.S. operation is also on a roll. The division delivered a 15% year-over-year gain in earnings in Q1 and investors should see the strong results continue.

TD has invested nearly \$17 billion over the past 10 years to build its U.S. operations. With more than 1,300 branches running from Florida all the way to Maine, TD now believes it has the scale it needs to compete in the U.S. and will focus most of its efforts on organic growth moving forward.

This is good for dividend investors because a reduction in capital outlays should result in more free cash flow available for distributions.

TD pays a dividend of \$2.04 that yields about 3.6%. The company just increased the payout by 9%, so things can't be that bad.

Canadian Imperial Bank of Commerce

The baby of the big five Canadian banks has done a good job of turning its fortunes around after the disastrous write-downs during the financial crisis.

CIBC got caught up in the subprime mortgage tsunami and had to write off more than \$10 billion. Shareholders also took it on the chin, as they watched the stock drop from \$100 per share to \$40.

The company shifted its strategy and decided to focus on Canadian retail customers. That move has proven to be very profitable, and the stock has regained most of the ground it lost, but some pundits think the company is over-exposed to the Canadian economy.

CIBC's mortgage portfolio of \$153 billion is quite large relative to its market capitalization of \$38 billion, and about 17% of the loans are located in Alberta.

These numbers have analysts worried that a meltdown in Alberta could spread through the rest of the country and send the Canadian economy into a prolonged rough patch. Given the overstretched housing market, significant job losses could result in a hard landing for house prices.

CIBC is well capitalized with a Basel III Common Equity Tier I Ratio of 10.3%. A sharp crash in housing would certainly be bad news for the bank, but that is unlikely to happen and the company should be able to weather a gradual decline.

CIBC pays a dividend of \$4.24 per share that yields about 4.4%. CIBC also just increased its dividend, so management is probably comfortable with the current risk profile.

Which should you buy?

CIBC's dividend yield is higher and the stock trades at a discount to Toronto-Dominion, but CIBC also carries more risk. At this point, Toronto-Dominion is probably a safer bet.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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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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Date

2025/09/14

Date Created

2015/04/27

Author

aswalker

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