Which Is a Better Dividend Stock: Toronto-Dominion Bank or Canadian Imperial Bank of Commerce?

Description

When searching for dividend stocks in Canada, the Big Five banks are a great place to start. After all, these banks face little competition in their home market, ensuring that profits are easy to come by. They're also well capitalized, especially by international standards. If that wasn't enough, they devote less than half their profits to dividends. So, even if their profits decline, their payouts to shareholders will still be affordable.

If you still don't believe me, just look at what happened during the financial crisis. Banks were failing all over the world, and Canada went through an economic recession. Yet none of the Big Five banks even cut their dividends!

This brings us to an important question: Which bank offers the best dividend? Below we take a step towards answering this question by looking at two of Canada's leading banks: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

The case for TD

Ever since a disastrous year in 2002, TD has placed a big emphasis on risk management, and it has paid off handsomely. Most notably, the bank sidestepped the American subprime mortgage meltdown in 2008-09. As a result, its shares have gone up by more than 60% since the start of 2007, easily tops among the Big Five.

Meanwhile, CIBC got caught up in the subprime mess, leading to over $10 billion in losses. Consequently, the bank's shares are actually *down* by 1.4% since the beginning of 2007.

The subprime mortgage misadventure was only the latest screw-up by CIBC. Previously, it was right in the middle of the Enron collapse, as well as the 1997 Asian financial crisis. And the list goes on.

TD has another advantage over CIBC: its retail banking presence in the United States, which should receive a nice boost from a strong economy and rising interest rates.

The case for CIBC

Again, let's start with the obvious: CIBC is a cheaper stock than TD, and thus has a higher dividend yield. To be more specific, TD trades for 13.5 times earnings and has a 3.7% dividend yield. CIBC trades for only 10.6 times adjusted earnings, and has a dividend yield of 4.4%.

Second, CIBC has gone back to basics since its disastrous American experience. As a result, the bank is much safer now than in years' past. Nearly all of its income comes from Canada, and the bank is better capitalized than TD.

Of course, CIBC could always go back to its old habits. But so far the bank has remained disciplined, and I don't see that changing anytime soon.

The verdict

In my opinion, if you're looking for some solid dividends, CIBC is the better choice. Despite its shaky history, the bank is on solid ground today and has a very nice dividend yield. That said, TD isn't a bad option either.

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