Want Dividend Growth? Time to Swap Your Royal Bank of Canada Shares for Canadian Imperial Bank of Commerce

Description

If you're looking for sustained dividend growth, the Canadian banks are a great place to start. Despite numerous ups and downs over the past 70 years, none have cut their dividends since World War II.

And among the Canadian banks, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is one of the more popular holdings. It's easy to see why. The bank has become a worldwide leader in the banking industry. It acted responsibly during the financial crisis. It is very well capitalized, and is playing on offence.

But if you're looking for meaningful dividend growth, there's a better alternative, and it's from a company that might surprise you: **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

The problem with RBC

As mentioned, there are a lot of things to like about RBC. But if you're looking for dividend growth, there are a couple of things that should concern you.

One is the growth of its Capital Markets business. This is a very volatile business, especially in Europe, and many key functions require a lot of capital to achieve growth. In RBC's defence, now is a perfect time to make this move. Large European banks like HSBC and UBS have been pulling back, creating a void that RBC has been happy to fill.

In the United States though, the story is a little different. The banking industry has been slowly rebounding, and expectations are more optimistic. Thus, when RBC bought City National, a California-based bank known for its Hollywood celebrity clientele, it had to pay full price. The US$5.4 billion paid by RBC amounted to nearly three times tangible book value.

Finally, RBC's dividend yields just a little less than 4%. That's not bad by most standards. But it's not as good as CIBC's.

Why CIBC is better

To start, CIBC has a dividend yield of 4.6%, easily better than RBC's. This is mainly because CIBC is cheaper, trading for only 10.5 times adjusted net income. By comparison, RBC trades for over 12 times earnings.

CIBC's strategy is also more low key, which should make earnings more predictable. The bank has learned from its mistakes in years past, and is glad to hunker down in Canada. More money can thus be devoted to dividends and shareholder buybacks.

The bank is looking for growth in some areas, particularly its U.S. wealth management division. But CEO Victor Dodig has held back on big acquisitions, determined not to overpay for any targets. He affirmed this strategy at the company's annual general meeting by stating, "I am not an empire builder."

So, in the years ahead, CIBC could easily devote more of its income to dividends. That should be music to most investors' ears.

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