

# Should You Hold Canadian Imperial Bank of Commerce or Toronto-Dominion Bank?

## Description

Analysts are starting to ponder the possibility of a recession in Canada, and investors are wondering if they need to be more careful when deciding to invest in Canadian banks.

Buying any of the Big Five has been a successful strategy since the financial crisis, but that might not be the case going forward.

Let's take a look at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) to see if one is a better pick right now.

### Canadian Imperial Bank of Commerce

CIBC is the baby of the Big Five and is often shunned by investors. The reason lies with the bank's history of missteps, of which, the \$10 billion in write-downs during the Great Recession is the biggest.

This is frustrating for CIBC's leaders because the bank is a very different beast today. Management has refocused its efforts over the past six years to concentrate on Canadian retail banking and wealth management. This strategy has been very successful, and shareholders who stayed with the company through the downturn have recouped most of their losses.

Today CIBC is under scrutiny for its heavy exposure to the Canadian market. At the end of Q2 the company held \$155 billion in Canadian residential mortgages as well as nearly \$17 billion in direct exposure to the Canadian energy sector. Some analysts are concerned the exposure to these two areas is too large relative to the company's market cap of \$37 billion.

The stock is very well capitalized with a Basel III CET1 ratio of 10.8% and the shares are trading at an attractive 9.6 times forward earnings and two times book value.

CIBC recently increased its dividend to \$4.36 per share, which yields about 4.7%.

### Toronto-Dominion Bank

TD is well known for its strong Canadian retail operations, but the company is also a big player south of the border. In fact, TD is now one of the top 10 banks in the U.S. with more than 1,300 branches running from Maine right down to Florida.

The U.S. operations are not as profitable as the Canadian division, but TD says it now has the scale it needs to compete in the U.S. market, and much of the focus going forward will be on driving more efficiency into that division. As the American economy and the U.S. dollar continue to strengthen, TD should see stronger numbers from the U.S. group in coming years.

TD finished Q2 with \$236 billion in Canadian retail mortgages on its books. This looks like a big

number, but TD has a market cap of \$100 billion. The company finished Q2 with just \$3.8 billion in loans connected to the oil and gas sector, representing just 1% of the company's overall loan book.

TD is well capitalized with a CET1 ratio of 9.9%.

The bank increased its dividend by 9% earlier this year. The current distribution of \$2.04 per share yields about 3.8%. TD's shares trade for 11.1 times forward earnings and 1.7 times book value.

### **Which is a better bet?**

Both CIBC and TD are well capitalized and trading at attractive valuations. Long-term investors should be comfortable holding either stock.

However, a severe downturn in the Canadian economy will hit CIBC harder. TD has better diversity in its earnings and is a much larger bank. It also has less exposure to the energy sector.

At this point, CIBC offers a better dividend yield, but the difference is small considering the added risk. If you have to choose one, TD is probably the safer bet in the current environment.

### **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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