



Should Dividend Investors Hold Bank of Montreal or Canadian Imperial Bank of Commerce?

Description

The Bank of Canada's latest rate cut and acknowledgement of a mild recession has Canadian investors taking a hard look at their bank holdings.

For the past six years, an investment in any of the Canadian banks has been a successful one, but the situation might be very different as we move forward.

Let's take a look at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) to see if one is a safer bet right now for dividend investors.

Bank of Montreal

Canada's oldest bank delivered Q2 2015 adjusted net income of \$1.1 billion, or \$1.71 per share compared with \$1.63 per share earned in the same period last year. That's a decent result given the headwinds facing the financial sector.

The Canadian personal and commercial banking operations brought in net income of \$487 million as revenues increased by 4% and deposits rose 7%.

With more than 600 branches and two million customers located in the U.S. Midwest, Bank of Montreal is capitalizing on the strong U.S. dollar and a rebounding American economy. The U.S. operations saw Q2 commercial loans jump 17% compared with 2014 and adjusted net income increased from \$154 million to \$176 million.

Bank of Montreal is also building its wealth management division and now has operations in Canada, the U.S., Asia, and Europe. The group had a solid Q2 with year-over-year net income growth of 34%.

Capital markets had a slightly weaker quarter than Q2 2014, but the earnings were much better than Q1 2015.

The diversity of the revenue streams is important in the current environment. Canadian personal and

commercial banking accounted for 38% of profits, capital markets contributed 24%, wealth management added 21%, and the U.S. division kicked in 17% of net income.

Bank of Montreal finished Q2 with \$93.4 billion in Canadian residential mortgages on its books. Alberta accounted for 16% of the portfolio.

The bank pays a dividend of \$3.28 that yields about 4.4%.

Canadian Imperial Bank of Commerce

During the financial crisis, CIBC took some heavy write-downs connected to the U.S. subprime market. The result was a renewed focus on Canadian operations, and that strategy has been very successful over the past six years.

Now, analysts are concerned that CIBC is overexposed to the domestic economy.

CIBC finished the second quarter with \$155 billion in Canadian residential mortgages and \$17 billion in direct exposure to the energy sector.

The company is well capitalized with a CET1 ratio of 10.8%, which means CIBC is more than capable of handling a downturn in the economy and a controlled pullback in the housing market.

The company delivered strong Q2 2015 earnings of \$2.28 billion, a 5% increase over the same period in 2014. Adjusted revenue growth was 7% and the company's return on equity is above 20%.

CIBC recently increased the dividend to \$4.36 per share, which now yields about 4.8%.

Which stock is a better bet right now?

Both companies are trading at attractive valuations and long-term investors should be comfortable holding either stock.

However, Bank of Montreal's earnings are less exposed to the Canadian economy, so it will be perceived as the safer bet in the coming months. At this point, CIBC's slightly higher yield probably isn't enough to justify the added risk connected to its much larger residential mortgage portfolio.

CATEGORY

1. Bank Stocks
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1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BMO (Bank Of Montreal)
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