



Should Dividend Investors Pick Bank of Nova Scotia or Canadian Imperial Bank of Commerce?

Description

Every day it seems the pundits are getting more concerned about weakness in the Canadian economy. Analysts are worried about a prolonged recession, and the potential collapse of our sky-high housing bubble is starting to keep investors on the sidelines.

Despite the negative news and well-documented headwinds, Canada's banks still deserve to hold anchor positions in a balanced dividend portfolio, and most of them are pretty cheap right now.

With that thought in mind, let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) to see if one is a better bet.

Bank of Nova Scotia

Canada's most international bank is going through a significant restructuring process, and much of the focus is on the Latin American division.

The bank has spent more than \$7 billion over the past five years to build a substantial asset base in Mexico, Colombia, Peru, and Chile. These four countries are in the process of integrating their markets and Bank of Nova Scotia is well positioned to benefit.

The bank is already seeing strong top-line numbers in the region, and the margins should improve as the company continues its restructuring activities.

With the Canadian economy working its way through a rough patch, Bank of Nova Scotia's diversified revenue stream could start to command more respect.

The bank pays a dividend of \$2.72 per share that yields about 4.3%. The stock trades at just 10.4 times forward earnings and 1.6 times book value, which means Bank of Nova Scotia is a solid value play at its current price.

Canadian Imperial Bank of Commerce

After taking \$10 billion in write-downs connected to bad bets on the U.S. subprime mortgage market, Canadian Imperial Bank of Commerce refocused its efforts on the Canadian retail market. That strategy has been very successful, and investors who bought the stock during the darkest days of the financial crisis have been handsomely rewarded.

Ironically, the heavy concentration on the Canadian market is now the reason investors are getting concerned about CIBC's prospects. The bank is heavily exposed to both the Canadian housing market and the energy patch.

Management says the loan portfolios are not showing any signs of stress and the company is very well capitalized with a Basel III CET1 ratio of 10.8%.

CIBC recently increased its dividend to \$4.36 per share, which now yields about 4.7%. Investors should see the move as a sign that management isn't overly concerned about its earnings outlook.

The stock trades at an attractive 9.6 times forward earnings and two times book value.

Which stock is a better bet?

Both stocks are solid long-term holdings and currently trade at compelling valuations. CIBC offers a slightly higher yield, but that also comes with greater exposure to a faltering Canadian economy. At this point, I would give the edge to Bank of Nova Scotia.

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1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

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