Does Toronto-Dominion Bank or Canadian Imperial Bank of Commerce Have the Better Dividend?

Description

If you're looking for quality dividend stocks, the Big Five Canadian banks are a great place to start. After all, they face very limited competition—unlike their American peers—and make relatively steady profits as a result. Better yet, they're all very well capitalized. And none of them have cut their dividends since World War II.

These days there are some legitimate concerns about the banks. The Canadian economy is technically in recession mainly due to low oil prices. Consumer debt remains at record levels. And low interest rates are eating into the banks' margins. But none of these issues have derailed the banks so far, and the likelihood of dividend cuts remains practically zero.

But which of the banks has the best dividend? Well, below we take a look at two candidates: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

The case for CIBC

CIBC is not especially popular among investors, and it's easy to see why. The bank is the most Canada-focused of all the Big Five, which limits the bank's growth opportunities and makes it particularly vulnerable to the problems our economy is facing.

Consequently, CIBC trades at only 10.6 times earnings, which is lowest among the Big Five. This cheap price also means CIBC has the highest dividend yield, currently at just over 4.7%.

But it looks like investors are overreacting to CIBC's headwinds. For starters, the bank just posted very strong quarterly earnings. It also raised its dividend for the fourth straight quarter and unveiled a share buyback program, too. Importantly, CIBC has the best capital ratio of any Big Five bank, allowing for plenty of leeway with these programs.

Besides, CIBC still only pays out about half of earnings to shareholders, just like the other banks. So, even if the earnings number takes a hit, its dividend is still very affordable. This may just be the safest

4.7% dividend you can find.

The case for TD

TD may not seem like such a bargain at first glance. Its price to earnings ratio of 12.5 is the highest among the Big Five banks, and its 3.9% dividend yield is the lowest. Yet this is also one of Canada's best dividend stocks.

Unlike CIBC, TD has relatively little exposure to Canada's economic woes. The bank has a big presence in the United States, and its Canadian exposure is mainly concentrated in Ontario. Both those regions are benefiting from lower gasoline prices, and Ontarians are enjoying the low Canadian dollar as well.

Furthermore, TD has little exposure to energy producers, and its big retail division isn't hurt so badly by problems in the corporate world.

It's no wonder the bank continues to post strong results. I would expect these good results to continue.

The verdict

If you're simply looking for a big dividend that won't be cut, CIBC is certainly the better option. As for the rest of us, TD is probably the better opportunity, even though it comes with a slight premium. But there is nothing wrong with owning both.

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