# Should Investors Buy Bank of Montreal or Canadian Imperial Bank of Commerce?

## Description

**Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian Imperial Bank of Commerce** (TSX:CM)( NYSE:CM) are the smallest of the Big Five banks.



Let's take a look at the two companies to see if one deserves to be in your portfolio.

**Bank of Montreal**

Canada's oldest bank has a well-balanced revenue stream that is particularly appealing in the current environment.

The company relies on Canadian personal and commercial banking for 43% of its profits, but it also gets 18% of earnings from its U.S.-based retail operations. This is important right now because the 600-branch U.S. group is benefiting from a rebound in the American economy, and every dollar BMO earns south of the border translates into $1.32 Canadian. That provides a nice hedge against the weakening Canadian economy.

BMO's wealth management group continues to grow and has operations around the globe. The division contributes 18% of the company's earnings, and that will likely expand in the future. Capital markets activities represent 21% of profits. This segment can be volatile and earnings tend to fluctuate from one quarter to the next.

Investors looking at bank stocks want to know how much exposure each company has to housing and the oil sector.

About 2% of BMO's loan book is connected to the energy space. If oil prices continue to fall, the company will start to see loss provisions rise.

As for housing, BMO's latest statement indicated $94.5 billion in Canadian residential mortgage loans, of which, 60% are insured. The loan-to-value ratio on the remaining mortgages is 58%.

BMO has a market cap of $46 billion, trades at 10 times forward earnings, and pays a quarterly dividend of $0.82 per share that yields 4.7%.

**Canadian Imperial Bank of Commerce**

During the financial crisis CIBC took about $10 billion in write-downs connected to bad bets on the U.S. subprime market. Management then decided to retreat home and went all-in on growing its Canadian retail business as well as its wealth management segment.

That strategy has been very profitable, but it also means CIBC is the most exposed of the Big Five banks to an economic pullback in Canada.

CIBC has $159 billion in Canadian residential mortgages. That's a lot considering it has a market cap of just $38 billion, but 65% of the loans are insured and the loan-to-value ratio on the rest of the portfolio is 60%.

CIBC's $17.4 billion in direct energy exposure should be watched carefully. About 80% of the loans are considered investment grade, but provisions for losses will likely start to rise in the coming quarters if energy prices don't bounce back.

CIBC also trades at 10 times forward earnings and pays a dividend that yields 4.7%.



**Which should you buy?**

Both banks are well capitalized and can comfortably ride out a slump in the Canadian economy as well as a slowdown in the housing market.

However, if things get really bad in Canada, CIBC will be hit much harder. The two companies offer similar yields and trade at the same valuation, so BMO is probably a safer bet right now.

**CATEGORY**

1. Bank Stocks
2. Investing

**TICKERS GLOBAL**

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

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