



Is Bank of Nova Scotia or Canadian Imperial Bank of Commerce a Better Long-Term Bet?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) have performed well since the financial crisis, but the companies have very different strategies, and investors are wondering which one is a better bet for future growth.

Let's take a look at Bank of Nova Scotia and CIBC to see if one deserves to be in your portfolio.

Bank of Nova Scotia

Bank of Nova Scotia is Canada's most international bank with full-service banking operations in more than 30 countries.

Latin America is the main focus for the bank, where it has spent more than \$7 billion in the past five years to build a significant presence. The company is primarily targeting Mexico, Colombia, Chile, and Peru because these countries form the core of the Pacific Alliance, a trade bloc set up to foster the free movement of goods, capital, and people.

More than 90% of the previous trade barriers have already been removed and the four countries have integrated their stock markets.

As businesses expand their reach into the other member states, they need a wide variety of new cash management products and services. Bank of Nova Scotia is capitalizing on that demand by having an established brand in all four markets.

In its Q3 2015 earnings statement the bank reported 12% year-over-year loan growth in the Latin American operations. The international banking division as a whole earned net income of \$485 million for Q3 2015, an 11% increase over the same period last year.

A growing middle class is also a big reason for Bank of Nova Scotia's investment in Latin America. The Pacific Alliance members represent a market of more than 200 million people. As wealth expands, the people in these countries are demanding credit cards, lines of credit, car loans, and investment

products.

At home, Bank of Nova Scotia is still exposed to economic risks. The company finished Q3 with \$189 billion of residential mortgages on the books and \$15.8 billion of outstanding loans to the oil sector.

Bank of Nova Scotia pays a quarterly dividend of \$0.70 per share that yields about 4.7%. The company has a market capitalization of \$72 billion and trades at 10 times forward earnings.

Canadian Imperial Bank of Commerce

CIBC really got hammered during the financial crisis when it had to write off about \$10 billion in bad bets on U.S. subprime mortgages.

The result was a renewed focus on Canadian retail banking and wealth management. That strategy has paid off very well in the past five years, but it has also made CIBC the most exposed to the Canadian economy.

CIBC finished the third quarter with \$159 billion in Canadian residential mortgages and more than \$17 billion of direct exposure to the oil and gas sector.

Earnings continue to be very strong, and management recently increased the quarterly dividend to \$1.12 per share, which yields 4.7%. CIBC has a market capitalization of \$38 billion and trades at 10 times forward earnings.

Which should you buy?

Both banks are well capitalized and capable of riding out a period of weakness in the Canadian economy. However, CIBC is a much smaller company, so its large housing and energy exposure could be a problem if things really go bad in Canada.

The two stocks are trading at equivalent valuations and offer similar yields. At this point, Bank of Nova Scotia is probably a better pick given its size and international diversification.

CATEGORY

1. Bank Stocks
2. Investing

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)
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