Dividend Investors: Should You Buy Canadian Imperial Bank of Commerce or National Bank of Canada?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) and **National Bank of Canada** (TSX:NA) both have dividends that pay more than 5%.

Let's take a look at the two banks to see which one is a safer bet.

CIBC

CIBC is Canada's fifth-largest bank and has a market capitalization of about $35 billion.

During the last financial crisis CIBC had to write down about $10 billion in bad bets on the U.S. subprime market. That led management to refocus heavily on Canada, which has been an extremely profitable strategy, but it also has some analysts concerned that the company is too exposed to the Canadian economy.

CIBC finished fiscal Q4 2015 with $163 billion in Canadian residential mortgages. The insured loans represent 64% of the portfolio and the loan-to-value ratio on the remainder is 61%. This means the housing market would really have to fall out of bed before CIBC is hit in a material way.

The bank has $17.3 billion of direct exposure to the oil and gas sector with more than 75% being investment grade. As of October 31, $6.1 billion had been drawn. If energy markets continue to slump the bank might have to increase loss provisions, but the hit shouldn't be significant relative to the overall loan portfolio. CIBC is well capitalized with a CET1 ratio of 10.8% and is capable of riding out the tough times.

The quarterly dividend of $1.15 per share yields about 5.2%.

National Bank

National Bank is Canada's sixth-largest bank and has a market capitalization of about $13 billion. The bank is heavily focused on the Quebec market.

The stock actually had a great run from mid-2013 to late 2014, but a decline since then has given back most of the gains and the market is concerned that things might get worse.

National bank recently announced a round of layoffs and raised $300 million in capital to shore up its CET1 ratio, which was at risk of falling below the 9.5% minimum requirement. When the announcement was made, the company said current economic headwinds are making the market very competitive.

Despite the difficult conditions, the bank delivered decent fiscal Q4 2015 results. Net income came in at $347 million, up 5% from the same period the year before. National Bank pays a dividend of $0.54 per share that yields about 5.6%.

Which should you buy?

The Canadian banks are all facing competitive threats from non-bank tech companies entering the mobile payment market. CIBC is much larger than Canadian National and better positioned to invest the capital needed to defend its turf as the industry evolves.

The dividend should be safe at both companies, but given the slight difference in the yield between the two stocks, I would pick CIBC in the current environment.

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1. Bank Stocks
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Date
2025/09/13
Date Created
2016/01/12
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