



## RRSP Investors: Should You Buy Canadian Imperial Bank of Commerce or Canadian National Railway Company?

### Description

Canadians are searching for top picks to add to their RRSP portfolios.

Let's take a look at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) to see if one is a better bet right now.

### CIBC

CIBC is Canada's fifth-largest bank and has a reputation for being a riskier bet than its peers.

The perception comes from a history of big blunders, the most recent being nearly \$10 billion in sub-prime write-downs during the Great Recession.

In the wake of the financial crisis, CIBC turned its focus squarely on the Canadian market. This was supposed to take away most of the risk, but CIBC's exposure to the oil sector and a frothy housing market has analysts somewhat concerned again.

That might change in the near future.

CIBC is diversifying its revenue stream through the US\$3.8 billion acquisition of **PrivateBancorp Inc.**, a commercial bank based in Chicago. The move will enable CIBC to offer U.S. banking services to its Canadian clients as well as provide a strong complement to the company's existing U.S. wealth management unit, Atlantic Trust.

Moving forward, investors should see the U.S. group continue to grow, and that should provide a solid hedge against weakness in the Canadian economy.

CIBC pays a quarterly dividend of \$1.21 per share. At the current stock price, the distribution offers a yield of 4.9%.

## CN

The North American rail industry is working its way through a slow patch in the economic cycle, but CN continues to put up solid numbers as efficiency gains and a strong U.S. dollar help offset weaker sales.

CN reported Q2 2016 net income of \$858 million, or \$1.10 per share. That was pretty much consistent with the Q2 2015 numbers, even though most segments generated lower year-over-year revenues.

On the bright side, CN generated a healthy \$1.17 billion in free cash flow for the quarter, up from \$1.05 billion in Q2 2015.

Free cash flow is used to pay dividends, and CN is generous when it comes to sharing the profits with investors. The company raised the payout by 20% earlier this year, and shareholders have enjoyed an average annual dividend increase of about 17% over the past two decades.

CN has a great advantage over its peers in that it is the only rail company that can offer customers access to three coasts. The likelihood of a new rail network being built along the same routes is pretty much nil, so investors should see CN maintain its dominant market position for decades.

CN's current dividend yields 1.8%.

### Is one a better bet?

A few months ago I would have picked CIBC, but the bank has rallied significantly off the February low. As such, it's probably a coin toss between the two stocks at this point.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:CNI (Canadian National Railway Company)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:CNR (Canadian National Railway Company)

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### Author

aswalker

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