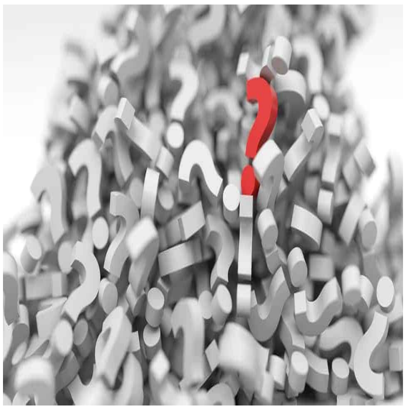

Is it Time to Buy Shares in These 2 Banks?

Description

The Canadian banking industry contains some of the largest and most profitable corporations in this country. With the industry's oligopoly structure, the Big Six control over 90% of the industry. The combination of centralized power and large barriers to entry helps secure the future returns of these profit-driven machines.

However, in recent weeks, Canadian banks have been receiving bad press regarding the high-pressure tactics implemented by management. As a result, we have seen a dip in the stocks prices of these companies. Therefore, should investors consider acquiring shares in **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) on the dip?

Bank of Nova Scotia

Bank of Nova Scotia is the third-largest bank in Canada, operates in 55 countries, and has over 21 million customers worldwide. Year over year, the company has been able to increase its revenue by 8%, while only increasing its expenses by 3% due to its digital focus.

Over 70% of its customers conduct their banking with the company's digital offerings, and the company plans to reduce in-branch transactions to 10%. If this goal is met, the company will be able to continue to reduce its overhead costs and stay on pace with today's technological trends, which should translate into stronger earnings.

The stock is currently trading at a price-to-earnings ratio of 13, which is well above its five-year average of 11.50. However, the company continues to generate significant cash flows while maintaining a payout ratio below 50%. Therefore, investors have reason to believe the company can continue to grow its current dividend yield of 3.95%.

CIBC

Although its stock price is the highest among the Canadian banks, CIBC has the cheapest valuation. The company currently has a price-to-earnings ratio of 10, which is well below the Big Six average of 13. Therefore, the combination of a cheap valuation and a dividend yield of 4.3% can be quite attractive for investors.

With the stock price above $115, the company could issue a stock split in the near future. A stock split will have no effect of the adjusted share price, but it indicates management's confidence in the outlook of the company.

That being said, investors should be aware of the biggest risk associated with CIBC. Among Canadian banks, it has the most exposure to consumer debt. With individuals continually living outside their means and interest rates expected to rise, consumers may struggle to service their debt in the future. Therefore, CIBC's earnings and stock price could take a hit in the future.

Foolish bottom line

Although the stock prices of both companies have dropped recently, investors should not be fearful. These companies are some of the most reliable and profitable companies available in the stock market. Even if the rumours are true, these companies will adapt and ensure proper policies are in place to prevent pressure tactics in the future.

As the Oracle of Omaha, Warren Buffett, has said before, "…be fearful when others are greedy and greedy when others are fearful." Investors should be looking at this dip as a fantastic opportunity to buy shares in these great companies at a discount.

That being said, I'd recommend acquiring shares in Bank of Nova Scotia over CIBC at this time due to CIBC's significant exposure to consumer debt.

CATEGORY

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