Should You Buy Toronto-Dominion Bank or Canadian Imperial Bank of Commerce Today?

Description

Canadian bank stocks have pulled back from their 2017 highs, and investors are wondering which names might be attractive right now.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if one should be on your buy list.

TD

TD is widely viewed as the safest bet among the big Canadian banks. The company has limited direct exposure to the energy sector and relies on stable retail banking activities for the majority of its revenue.

Some investors are concerned the lofty Canadian housing market presents a risk for the banks.

TD's Canadian residential mortgage portfolio is large, but the company is more than capable of riding out a downturn. Insured mortgages represent 47% of the loans, and the loan-to-value ratio on the rest is 49%.

This means house prices would have to fall significantly before TD takes a material hit.

Management is targeting 7-10% adjusted earnings-per-share growth over the medium term, which should provide ample support for continued dividend hikes.

TD has a strong track record of dividend increases, averaging 11% over the past 20 years.

The company is primarily known for its Canadian operations, but TD has a substantial business in the United States. In fact, there are more branches south of the border than there are in Canada.

The U.S. retail operations accounted for 30% of net income in the last quarter, so there is a nice hedge coming from the U.S. to offset any potential weakness in the Canadian market.

The stock currently trades at 12.8 times trailing earnings and provides a dividend yield of 3.7%.

CIBC

CIBC sits on the other end of the risk spectrum in the eyes of many investors.

The company is more exposed to the Canadian housing and energy sectors on a relative basis than TD and has less revenue coming from the U.S. market.

Management acknowledges the need for a more balanced revenue stream and recently secured two acquisitions in the United States that should provide a solid base to expand the U.S. presence.

A housing crash in Canada would likely hit CIBC harder than TD, but things would have to get pretty bad before the company feels some serious pain. CIBC said last year that its stress tests indicate a 30% drop in house prices, and an unemployment rate of 11% would result in mortgage losses of less than $100 million.

Investors are taking a cautious approach with CIBC, which is why the stock is trading at less than nine times trailing earnings.

As a result of the low stock price, the dividend yield is up to 4.7%.

Is one a better bet?

Contrarian investors who think housing fears are overblown might want to start nibbling on CIBC.

For investors who have a more conservative investing style, TD still looks like a solid buy-and-hold dividend pick for the portfolio.

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