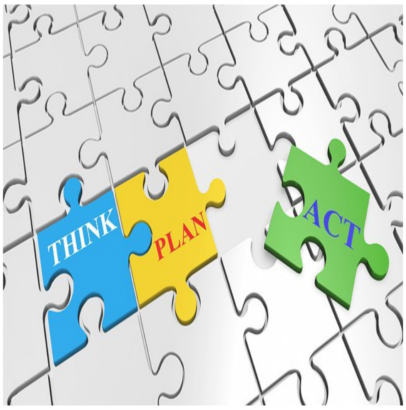

Better Buy: Canadian Imperial Bank of Commerce or Bank of Montreal?

Description

Canadian Imperial Bank of Commerce ([TSX:CM])([NYSE:CM]) and **Bank of Montreal** ([TSX:BMO])([NYSE:BMO]) are the two laggards in the rally of Canadian bank stocks this year.

Their share prices have hardly budged when compared to other top banking stocks, which have registered double-digit gains this year after recovering from their weakness this summer.

So, if you are still out in the market to add some solid dividend-paying stocks, then which banking stocks you should buy? Let us find out which stock offers better value.

Housing concerns

Some investors are avoiding CIBC and BMO stocks on concern that they have too much exposure to the [Canadian housing market], where prices have reached a dangerous level after a decade-long boom.

Investors got nervous after home sales started to plunge in the nation's largest housing market, Toronto, this spring as the government intervened to cool the market.

Amid the housing market uncertainty, rating agencies have also added to the bearish sentiments. Fitch Ratings, last month, lowered its outlook on CIBC on concerns about its exposure to the housing and consumer sectors.

Fitch maintained its rating for CIBC at AA-, adding that its large exposure to housing loans prompted the agency to lower its outlook for the bank's debt to negative from stable.

"The Negative Outlook reflects Fitch's view that CIBC is the most exposed to a potential housing correction and the health of the Canadian consumer," the agency said in a release.

More than 62% of CIBC's total loans were made up of domestic mortgages. That compares with an average of 49% among Canada's other banks — and is the highest among its peers.

The second factor depressing the values of these stocks is related to geographic limitations. Some investors argue that, unlike their peers, which have strong footprints in the U.S., CIBC and BMO do not have a robust presence outside Canada. This weakness will limit their earning capabilities in case we have a slowdown in the domestic market.

Which one is better?

Both CIBC and BMO are great dividend stocks. There is no doubt that they are underperforming in the current market conditions, but I don't see any long-term threat to their ability to produce superior returns for their shareholders.

After the government's intervention, the Canadian housing market has stabilized without showing any signs of a crash, which many short sellers were hoping to see.

CIBC's dividend yield at 4.5% is one percentage point higher than what BMO is offering, and that makes CIBC a better buy. I would consider giving CIBC a higher weight in any asset allocation due to its better value, but I am long on both of these stocks.

BMO is one of the safest dividend stocks among top Canadian banks due to its unbeatable track record. The company has sent dividend cheques to investors every single year since 1829.

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Date
2025/07/05
Date Created
2017/11/25
Author

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