



Which of These 2 Canadian Banks Is the Better Buy?

Description

Canadian banks are still [hallmarks of stability and income generation for investors](#). Two of my favourites at this time are **National Bank of Canada** ([TSX:NA](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

But which is better?

Let's start by looking at dividend yield. National Bank currently has a dividend yield of 3.67%, while CIBC's is at 4.54%, making CIBC the higher-yielding stock

So, let's start with CIBC.

Besides CIBC's exposure to the slower growing Canadian market, resulting in the bank's cheaper multiple than its peers, I believe that in many ways, CIBC is still in the penalty box with investors, even years after the credit crisis of 2008.

In those years, CIBC made relatively aggressive and risky business decisions that resulted in big financial losses and, of course, a big loss of confidence among investors. There was the claim that CIBC helped Enron hide losses, which the bank paid \$3 billion to settle in 2005, and in 2008 there was the bank's participation in the U.S. subprime mortgage market, which resulted in a staggering \$10 billion in writedowns in 2008 and 2009.

I don't mean to drudge up these failings, but I think it speaks to the change that has happened at the bank since then. CIBC has lowered its risk profile to generate more sustainable and less volatile returns for shareholder, and it has a high tier 1 capital ratio, strong returns on equity, consistent earnings, and consistently increasing dividend payments.

Both banks are in the process of a restructuring, with CIBC generating an efficiency improvement of approximately 160 basis points in 2017, with additional improvements of the same magnitude expected to come in 2018 and 2019.

Being heavily weighted in the Quebec region, National Bank provides even less diversity of earnings

and revenue than CIBC.

But National Bank is a laggard among the banks and is in the earlier innings of restructuring to improve efficiency, and so at this point in time, it has more upside in this regard.

Just to illustrate this point, ROE at National Bank is set to increase a full 300 basis points in 2017 compared to being down to flat or marginally increasing for other banks, including CIBC.

National Bank is targeting \$135 million in cost savings in 2017 and \$155 million in 2018.

And in its latest quarter, National Bank reported EPS of \$1.39, which is higher than expected and represents a 4.5% growth rate compared to the same quarter last year.

In terms of valuation, CIBC still trades at a discount to its peer group, while National Bank has more low-hanging fruit to act as a more [imminent catalyst](#) for the stock price. But I think that if and when CIBC improves its tier 1 capital ratio, which is at 10.4% versus National Bank at 11.2%, the valuation gap will certainly close.

So, while I believe that both banks will fare well, I would opt for National Bank at this time.

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2. Dividend Stocks
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1. Editor's Choice

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:NA (National Bank of Canada)

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Date

2025/09/12

Date Created

2017/11/28

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