Which Is the Better Buy? Canadian Imperial Bank of Commerce vs. Toronto-Dominion Bank

Description

The Canadian banks have proven to be great investments for decades now, and despite what you may read about the risks of highly indebted Canadian households, that statement will more than likely hold true for at least the next 10 years as well.

But while you could have done well with any of the Big Five banks over the long term, every now and then there is an opportunity to make "tactical adjustments" that, if executed properly, will help you to achieve above-average returns in your portfolio.

A "tactical strategy" just means you're moving money around a little to make sure it's being used in the most efficient manner possible.

With that in mind, let's take a closer look at two of these Canadian banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), to see which one offers you the best bang for your buck today.

Which one has the better dividend?

CIBC pays its shareholders a dividend yield of 4.66% against a quarterly dividend of $1.33.

That compares favourably to TD, which currently pays a $0.60 quarterly yield or a much lower 3.29%.

But that doesn't tell the whole story.

Yield only tells us how much of our investment will be returned to us this year as investors, but it doesn't tell us anything about how the current dividend will change over time.

To understand the rate at which a company will be able to sustainably grow its dividend over the long term, we need to look at its return on equity and the percentage of earnings that are being retained and not paid out.

Yet it's still CIBC that gets the edge here, with a sustainable dividend-growth rate of 8.6% versus a growth potential for TD's of just 6.3%.

At least as far as the dividends are concerned, CIBC is the clear hands-down winner.

Which one offers you better value?

We can also look to these two banks' price-to-earnings (P/E) and price-to-book (P/B) ratios to understand exactly how much we are paying for each company's earnings stream and their respective book values or the tangible value on the balance sheet.

Once again, CIBC gets the nod.

CIBC has a P/E ratio of 9.70 to TD's 12.80, making it the "cheaper" of the two investments.

One could make the argument that maybe TD has better growth potential, which is why it would be more expensive, yet this year TD's earnings are forecast to grow 3.6%, while CIBC's are forecast to grow by 8.6%.

And when it comes to their P/B ratios, CIBC clocks in at 1.55 times, while TD registers a 1.78 times mark, making CIBC the preferable investment, measured even by the most conservative standard.

Bottom line

Hands down, CIBC appears to be the superior of the two investments in terms of its dividend, the value being offered, and the growth potential.

That doesn't mean that TD won't make you money over the long term, but it does suggest that CIBC may be where you want to be putting your hard-earned money right now.

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