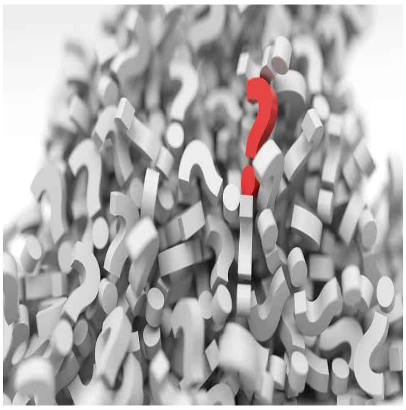

Is Bank of Montreal or Canadian Imperial Bank of Commerce a Good RRSP Pick?

Description

Canadian savers are searching for top-quality stocks to add to their self-directed RRSP portfolios.

The big banks are often touted as strong picks, but the discussion normally centres on the three largest companies, rather than **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which round out the Big Five.

Bank of Montreal

Bank of Montreal is Canada's oldest bank and has the longest-running streak of dividend payments in the country.

How long?

The bank has given investors a share of the profits every year since 1829. That's an impressive track record, and there shouldn't be any concern about the trend continuing.

Bank of Montreal is primarily known for its Canadian operations, but the company also has a long-standing presence in the United States, dating back to the 1980s. The company has grown the U.S. business through acquisitions, and it now has about 570 branches serving customers primarily located in the Midwest states.

The U.S. group provides a nice hedge against any potential downturn in the Canadian economy.

Regarding housing risk, Bank of Montreal finished 2017 with $108 billion in Canadian residential mortgages. Insured mortgages represented 51% of the portfolio, and the loan-to-value ratio on the uninsured mortgages was 52%. This means house prices would have to fall significantly before Bank of Montreal takes a meaningful hit.

At the time of writing, the stock has a market capitalization of $65 billion, trades for about 13 times earnings, and offers a dividend yield of 3.7%.

CIBC

CIBC is widely viewed as the riskiest of the big Canadian banks due to its large exposure to the Canadian housing market. The company finished 2017 with $201 billion in mortgages and another $21.7 billion in home equity lines of credit for a total of $222.7 billion in Canadian residential lending.

As with Bank of Montreal, insured mortgages make up a significant part of the portfolio, and house prices would have to crash before the bank gets into a mess, but the exposure is double that of Bank of Montreal, and CIBC is a smaller bank.

Management is taking steps to diversify the company’s revenue stream, as we saw with the US$5 billion acquisition of Chicago-based PrivateBancorp last year. Investors could see the trend continue.

The higher-risk profile is evident in the multiple that investors are willing to pay for CIBC. The company currently trades for 10.7 times earnings, making it the cheapest of the Big Five based on that metric. CIBC’s market capitalization at the time of writing is $51 billion, and the stock provides a dividend yield of 4.6%.

Is one a better bet?

Both companies have been around for more than 150 years and should continue to be solid picks for a buy-and-hold RRSP portfolio.

If you only buy one, I would probably go with CIBC today. The company carries more risk, but the discount compared to Bank of Montreal and the larger peers appears to be overdone. The mortgage portfolio should be manageable, even if the housing market hits a real rough patch, and the efforts to diversify the revenue stream could result in the market giving CIBC a better valuation.

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aswalker