
# Canadian Imperial Bank of Commerce or Canadian Pacific Railway Limited for Your RRSP?

## Description

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



Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) to see if one is an attractive pick today.

**CIBC**

CIBC is often viewed as the riskier choice among the big Canadian banks due to its exposure to the Canadian housing sector. As interest rates rise, some homeowners could be forced to sell their properties when the time comes to renew their mortgages. If there is a wave of selling, house prices could fall significantly.

That said, the likely scenario is a gradual decline in house prices, and CIBC's mortgage portfolio is capable of riding out a rough patch. Insured mortgages represent a large part of the loan book, and the loan-to-value ratio on the uninsured mortgages is low enough that things would have to get pretty bad before the bank takes a material hit.

Management is aware the exposure to Canada might be a bit lopsided, so CIBC spent more than US$5 billion on a series of acquisitions in the U.S. last year to help diversify the revenue stream. The purchases provide a strong platform for the company to expand its presence in the U.S. market, and investors could see additional deals in the coming years.

CIBC reported a 10% increase in earnings per share for Q1 2018 compared to Q1 2017.

The stock currently trades for less than 11 times trailing 12-month earnings, which makes CIBC the cheapest pick among the big banks, based on that metric. Investors who buy today can pick up a yield of 4.5%.

**CP**

CP had a challenging first quarter, working through difficult weather conditions and uncertainty over employment contracts with its engineers, conductors, and signal workers.

Despite the issues, the company managed to move 6% more freight and generated a 4% increase in revenue compared to the same period last year.

Members of two unions representing 3,000 CP employees are voting this week on a new agreement. If the proposal is rejected, a strike could result that would halt freight shipments and impact some passenger services. This sounds serious, but the market doesn't appear to be overly concerned, as CP's stock is trading close to its 12-month high.

CP recently raised its dividend by 15.5%, so management is also feeling comfortable with the company's revenue and cash flow outlook. At the time of writing, the stock provides a yield of 1.1%.

**Is one more attractive?**

Both stocks should be solid buy-and-hold picks for a self-directed RRSP portfolio. If you only buy one, I would probably make CIBC the first choice. The company's move into the U.S. should help balance out the revenue stream, and concern about the mortgage book might be overdone. At some point, investors could start to reward CIBC with a higher multiple.



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