Should Royal Bank of Canada (TSX:RY) or Canadian Imperial Bank of Commerce (TSX:CM) Stock Be in Your RRSP?

Description

Canadians are using self-directed Registered Retirement Savings Plans to invest their hard-earned money in top-quality stocks with the goal of building a comfortable nest egg for their golden years.

The **S&P/TSX Composite Index** is chock-full of great companies, and Canadian banks often crop up as favourites when investors are choosing anchor stocks for an RRSP portfolio. Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if one is an interesting pick right now.

Royal Bank

Royal Bank generated record profit of $3.1 billion for fiscal Q3 2018, representing an 11% increase over the same period last year. Diluted earnings jumped 14% per share and return on equity came in at 17.3%.

The company has a balanced revenue stream, with strong operations in personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance.

The wealth management division delivered the best year-over-year results, with net income rising 19% compared to Q3 2017. The U.S. segment performed particularly well, and has become a larger part of the story after the US$5 billion purchase of private and commercial bank City National nearly three years ago.

Rising interest rates, lower taxes, and volume growth south of the border helped boost net income in the wealth management group to $578 million.

Royal Bank just raised its dividend for the second time this year. The new quarterly payout of $0.98 per share provides a yield of 3.8%.

CIBC

CIBC has a market capitalization of about $54 billion, compared to nearly $150 billion for Royal Bank. Despite being roughly one-third the size of its larger peer, the baby of the Big Five has a significant Canadian mortgage portfolio, with total housing loans of $225 billion at the end of Q3 2018. To put that into perspective, Royal Bank's mortgage book was about $280 billion.

CIBC's heavy reliance on the Canadian housing market has been cause for concern, as rising interest rates could force a percentage of homeowners to sell their properties. In the event that rates rise too quickly, there is a risk that we could see a meaningful drop in house prices. So far, however, the broader Canadian market remains resilient.

Management has been aware of the situation for some time, which led to the US$5 billion acquisition of Chicago-based PrivateBancorp last year in a move to diversify the revenue stream. The addition of the U.S. assets sets the stage for additional growth south of the border, which could lead to a reduction in the discount on the stock in the next couple of years. CIBC trades at 10.7 times trailing earnings compared to 12.8 times for Royal Bank.

CIBC reported strong Q3 2018 results. Adjusted net income came in at $1.4 billion, representing a 20% increase over the same period last year. Adjusted earnings per share increased 11% and return on equity was 17.1%.

CIBC just increased its quarterly dividend from $1.33 to $1.36. That's good for a yield of 4.5%.

Is one more attractive?

Both Royal Bank and CIBC should be be solid candidates for a dividend-focused RRSP. If you want the safer choice, go with Canada's largest bank. However, investors who don't mind taking on a bit of extra risk might want to make CIBC their first pick. The dividend provides a better yield, and the discount on the stock might start to disappear as the company continues its efforts to balance out the revenue stream.

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