CIBC (TSX:CM) vs. Bank of Nova Scotia (TSX:BNS): Which Is the Better Bank for Your Buck?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are two cheap banking stocks that should be drawing the most attention from value investors.

Year-to-date, both stocks are heading in different directions, and as their valuations become more in line with each other, which, if any, is the better bargain in today's hectic environment?

CIBC

CIBC has been a perennial underperformer when compared to its bigger brothers in the Big Five basket of Canadian bank stocks. The permanent discount has been slapped on it despite the various fundamental improvements made since the financial disaster in 2007-08.

While CIBC is still the most exposed bank to the ugly Canadian housing market, investors can no longer slam it for not having an international outlet, as the PrivateBancorp (now known as CIBC Bank USA) acquisition is finally yielding fruit, impressing the most pessimistic of analysts who thought the deal was just too expensive.

Moving forward, CIBC is expected to continue enhancing its U.S. business with tuck-in deals that'll be anything but cheap. Such deals will put downward pressure on ROEs, but in the grander scheme of things, it will allow CIBC to close the valuation gap between itself and its bigger brothers in the Canadian banking scene.

Simply put, the bar for CIBC had been set low, which allowed the bank to catapult over it easily. Over the past year, CIBC has been a winner with the second-highest AUM (assets under management) growth of the Big Five banks.

CIBC is making a strong case for why it's an underdog worth betting on. And as the quarterly results continue to show signs of meaningful improvement, look to CIBC's discount to vanish.

Bank of Nova Scotia

On the other side of the coin, you've got Scotiabank, Canada's most international bank, which is hovering around 52-week lows at a time when the broader industry is blazing to new highs.

International growth was still robust, but both capital markets and net interest margins (NIM) were disappointing when compared side-by-side to the other Big Five banks.

The meagre performance is, I believe, nothing more than a buying opportunity for those looking to beef up their portfolios with exposure to the rapidly-emerging Pacific Alliance countries (Mexico, Peru, Colombia, and Chilé).

Fellow Fool contributor Kay Ng also noted that pricey acquisitions had pressured Scotiabank stock it's been making to build upon its foundation in the Pacific Alliance. The price of admission wasn't low, and it's clear that investors believe the uncertainty of future cash flows is too high given the price that Scotiabank ended up paying.

In the grander scheme of things, the investment will more than pay off, but investors are thinking short-term, as they did when CIBC scooped up PrivateBancorp a few years ago.

Mention long-term and most weak-handed shareholders are going to throw in the towel and look elsewhere. I think the recent weakness in Scotiabank shares is entirely unwarranted and would encourage opportunistic dividend investors to consider loosening up the purse strings.

Foolish takeaway

Both CIBC and Scotiabank are both great buys at today's levels. They offer identical 4.37% dividend yields and promising long-term growth runways. As for the better bet, I'm going to say CIBC is the better bank for your buck by a hair.

This could change in the coming months, however, as CIBC is starting to pick up traction.

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