Which Is the Better Value Stock: Toronto-Dominion Bank (TSX:TD) or Canadian Imperial Bank of Commerce (TSX:CM)?

Description

The banking sector did not perform well on the TSX this year. While business was good for the major Canadian banks, their performance did not translate to significant returns for shareholders, especially during the second half of the year when stock markets plummeted.

Rather than panic over the state of the market, however, value investors see great opportunities in market downturns. Stocks are more likely to be trading for less than their intrinsic value when the market goes down, so the argument goes.

Let's turn our attention to two of the largest Canadian banks, **Toronto-Dominion Bank** (TSX:TD) (NYSE:TD) and **Canadian Imperial Bank of Commerce** (TSX:CM) (NYSE:CM). Which of the two is the better value stock?

Toronto-Dominion Bank

Commercial banks are in the business of borrowing money and lending it at a higher rate, then cashing in on the difference between the two. That's why looking at the amount of loans on a bank's balance sheet is one of the best ways to gauge its financial health. TD is one of the top two Canadian banks by loans, which it managed to increase by 40% over the past five years. TD's revenue from deposits soared by more than 700%, and both interest and non-interest income grew over the same period.

TD is arguably the Canadian bank with the strongest presence in the U.S. The Toronto-based bank benefited from the country's recent tax overhaul. The effects of the *Tax Cuts and Jobs Act* (as it is formally known) for TD were net earnings of $392 million. TD's four-quarter earnings revealed increases in net income, earnings per share, and return on equity year over year. Despite having a good year, the bank provided a negative return to investors, or a modest return of 3.1% when accounting for dividends reinvested.

Canadian Imperial Bank of Commerce

CIBC does not currently have a very strong presence in the U.S. The company generates over 80% of its revenue from its Canadian operations. CIBC has been trying to strengthen and expand its U.S operations over the past few years, however, and the bank has been working on improving customer satisfaction.

This customer-centric approach has led to an almost 100% increase in revenue from deposits over the past two years alone. CIBC's number of loans increased substantially, while its interest income increased by 20% over the same period. The bank's non-interest income decreased, but both total revenue and adjusted net income grew.

While CIBC had a solid year, it had more ups and downs than some of its competitors. The company's third-quarter results were slightly disappointing, with a decrease in both interest and non-interest income of 1% and 3%, respectively, and a 7% decrease in net income. CIBC's fourth-quarter was better, however, posting increases in interest income, non-interest income, and net income of 3%, 6%, and 9%, respectively. Much like TD, CIBC returned a net loss to its shareholders during the year.

The bottom line

Although CIBC has made decent strides recently, TD is the better value stock in my opinion. TD has a larger market share, stronger fundamentals, and a much stronger presence in the U.S. The company's current price to earnings ratio is 10.69 with a 1.64 price to book ratio. TD's share price will see better days in the future, despite the current uncertain economic climate.

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