Which Is the Better Buy, CIBC (TSX:CM) or Scotiabank (TSX:BNS)?

Description

The last six months have been hard on Canada's Big Six Banks. No matter where the companies put money, shares continued to drop.

Luckily, the last few weeks have seen an upswing in bank fortunes, and therefore investors' fortunes as well.

But if you're looking to invest in one of these banks it can be extremely hard to choose. After all, aren't they all pretty much the same?

The answer is a big fat, "no," especially when you look at share price. But cheap doesn't mean better, and neither does pricey.

That's why today I'm looking at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see where investors should put their money.

CIBC

It's been a hard road back from the Great Recession for CIBC. The company was hit particularly hard, but since 2011 has made some major strides. Specifically, the bank focused on its internal processes and making its customers happy by optimizing its branches and expanding its wealth operations. This gave clients a return on equity (ROE) near 20%, which places it among the top two banks in Canada.

CIBC has remained Canada-focused over the last few years, but is since expanding more and more into the U.S. Right now, about 25% of its revenue comes from the U.S., but that should expand in the next few years.

This would be great news for investors, as CIBC has an enormous investment in the Canadian housing market, mainly through uninsured mortgages and loans. A downturn in the Canadian housing market would hit CIBC harder than any other Big Six Bank.

But what's to be noted here is that these points aren't permanent. The housing market would eventually turn around, and even trade tensions between the U.S. and Canada will eventually ease off.

In the meantime, CIBC has put itself in a strong position to expand, putting its worth at around $131 per share. That's a 20% increase from its current share price at the time of writing this article. And should things turn out better than expected, shares could reach as high as $145 per share in the next 12 months.

Scotiabank

If you're looking for a stock that isn't as heavily reliant on the U.S., but still offers international expansion at a much lower cost, then Scotiabank could be for you.

The stock is one of the cheapest of the Big Six Banks at about $73 per share at the time of writing this article. And again, like CIBC, that number is highly undervalued.

What makes Scotiabank different is that over the last few years, the bank has focused on two things: efficiency and international expansion. Scotiabank has been spending the most out of all Big Six Banks on technology and communication, putting it on track to become the most efficient of the banks by 2021. It's also known as Canada's most international bank, as half of its revenue comes from Canada, with 40% from international operations that are mainly in Latin America, and a small percentage from the U.S.

While that means trade tensions shouldn't hit Scotiabank as hard as it might hit the other Big Six, it doesn't mean there aren't risks. The bank's investment in Latin America is stable for the moment, but the potential for political instability is always there, which means that the bank could suddenly see higher credit losses and inflation than the other banks should something happen.

For now, the bank is a steal at its share price. Analysts expect the bank to trade between $77 and $94 in the next 12 months, with a fair value estimate closer to $80 per share.

Bottom line

You can't really go wrong with either of these banks at the moment if you're looking at historical performance. But if you're going to pick just one, I would go with Scotiabank.

CIBC has opened itself up to two potential losses over the next year with the Canadian housing market and U.S. expansion. Scotiabank may have invested in youthful markets, but there's no reason to expect anything bad to happen in the near future. And at a share price that's 33% cheaper than CIBC, it comes out as today's choice.

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