



Better Stock for Your TFSA: Royal Bank of Canada (TSX:RY) or Canadian Imperial Bank of Commerce (TSX:CM)?

Description

Worries of a coming recession are [still swirling around](#). Once the inverted yield curve rears its ugly head, tempers will likely take months to fully settle down, if they do so at all. Bank investors in particular ought to be vigilant. Lower interest rates tend to be associated with a recession, and lower interest rates directly affect a bank's bottom line.

Still, after the recession of the late 2000s, certain measures were established to ensure banks would be better equipped to handle such economic catastrophes. Which means banks can still be attractive investment options, even if a recession is coming. Let's look at two of the largest Canadian banks: **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). Which is a better buy for your TFSA?

Core operations

Both RBC and CM have core operations that are concentrated primarily in Canada, at least much more so than some of their peers. RBC pulls around 65% of its earnings from its domestic operations, with the rest coming mainly from the U.S. RBC is typically the leader (or in second place) when it comes to important banking categories such as deposits and loans.

Approximately 80% of CM's earnings are generated in Canada, but the firm has been making an effort to increase its exposure to international markets, such as the one south of the border. CM generally lags behind RBC domestically, though, while also having a weaker international presence.

Recent financial results

Both banks felt the pressure of volatile equity markets and uncertain global economic conditions last year. For RBC, this pressure was felt during its latest recorded quarter (Q1 2019) in its capital markets segment — whose net income decreased by 13% year over year — and its investor and treasury services, whose earnings decreased by 26%. However, RBC's most important segment (personal and

commercial banking) was up 3% due to growth in deposits and higher interest spreads caused by the current high interest rates.

CM seems to have been battered a bit more, recording a decrease of 5% in its net income for the first quarter of 2019. This lower income was caused by a decrease in its Canadian personal banking segments as well as its capital markets segment. It must also be noted that RBC's net income is more than two times that of CM. Both banks' efficiency figures are fairly equal, however. Both had a return on equity of around 16%. Overall, RBC seems to have handled last year's uncertain economic climate better than CM.

Valuation and dividends

CM currently seems to have the more attractive valuation. The company is trading at just under 10 times future earnings and about 1.5 times book value. By comparison, RBC currently trades at 12.5 times earnings and 2.1 times book value. CM also looks to be more generous with its dividends, currently offering a yield of 5.03% (compared to 4.05% for RBC). Both companies have increased their dividends at a similar rate over the past five years, with a slight edge going to CM (40% vs 38%). Further, both banks have conservative payout ratios that hover around the mid-40% mark.

Which should you buy?

RBC is the larger bank, has stronger domestic and national operations, and earns a higher income. However, CM's valuation is more attractive, and the firm seems slightly more willing to reward shareholders. Although I believe RBC is more likely to offer stability in the long run, you probably can't go wrong with either bank if you are looking for a strong dividend stock for your TFSA.

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