Which Has More Upside: Canadian Imperial Bank of Commerce (TSX:CM) or Bank of Nova Scotia (TSX:BNS)

Description

Canada's big banks have quietly put together a decent year. Although they have been the target of notable short sellers, the group has performed in line with the broader Index. Year to date, the Big Five have averaged a 13% return, only a couple of percentage points behind the TSX.

As has been the case over the past couple of years, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) have underperformed their peers. Respectively, their stocks are up 11.3% and 8.3% in 2019.

As a result, they still remain two of the cheapest banks on the TSX. The question is, which one has more upside?

Growth rates

First, let's take a look at expected growth rates. As the companies grow, so too should their share prices. Scotiabank is expected to grow revenue by 7.25% on average through 2020. For its part, CIBC is only expected to grow revenue by 4.55% over the same period.

Similarly, CIBC is expected to grow earnings in the low single digits (+3.75%), whereas the Scotiabank is expected to average 5.75% growth.

Advantage: When it comes to growth, Scotiabank has the clear advantage.

Analysts' estimates

Whether you agree with analysts' stock ratings, Canadian banks are easier to forecast than most. As such, analysts' estimates are usually quite reliable for the Big Five. As of writing, analysts have a one-year price target of $80.50 on Scotiabank. This implies 9% upside from today's share price of $73.67.

In total, there are 13 buys and only three holds. It is also worth noting that the company is trading below the most bearish estimate of $76 per share.

Analysts aren’t as bullish on CIBC. Analysts have six buys, five holds and three underperforms. Despite the varied sentiment, the bank is still trading at a 9% discount to its one-year average price target of $124.15 per share. The most bearish analysts have a $108 price target, which would imply approximately 5% downside.

Advantage: Once again, Scotiabank comes out on top.

Valuation

CIBC and the Scotiabank are both trading at a small discount to historical averages. If you compare historical price-to-earnings and price-to-book ratios, neither have a valuation advantage.

However, when one combines growth and valuation, Scotiabank begins to distance itself from CIBC. The bank is trading at P/E to growth (PEG) ratio of 1.61, the lowest of its peers. In comparison, CIBC’s is trading at a PEG of 2.04, which is the highest of the Big Five.

Advantage: Thanks to its expected growth profile, Scotiabank makes it three for three.

The best bank stock

When one combines growth, valuation and estimates, Scotiabank stock offers more upside. This is not entirely surprising, as the bank has been actively growing beyond Canada’s borders. Its rapid expansion into South America also makes it an interest play on emerging markets.

On the flip side, although CIBC has taken steps to expand in the U.S., it is still largely dependent on the Canadian market. This negatively impacts its growth rates and is one of the main reasons why analysts are less bullish on the stock.

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