Best Canadian Bank Today: TD Bank (TSX:TD) or CIBC (TSX:CM)?

Description

The Canadian banking environment has certainly gotten a little more challenging recently, with credit growth slowing and early signs showing provisions for credit losses edging up. Short-sellers like Steve Eisman have latched onto these themes and have been targeting the banks as great short ideas.

And CIBC's CEO agrees with Mr. Eisman at least in part, telling shareholders and analysts that growth rates in credit and Canadian banking are "normalizing" and to expect difficult times ahead. The big question to be answered then, is how much slowing can we expect ahead and which banks are best positioned in this new environment.

Let's take a look at two of Canada's biggest banks, each offering investors their own unique set of opportunities and risks, to see which one is the best Canadian bank for investors to buy today.

I will zero in on the most important factors that investors look for in the Canadian banks, such as dividend yield, dividend growth, and dividend reliability, the health of their loan and credit businesses, and future growth and risks. I will compare the two banks to see which one comes out ahead.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC bank has been the perpetual laggard in so many respects for many years now, with this laggard status affording the bank with a persistently higher dividend yield and lower valuation.

Today, CIBC bank stock offers investors a generous dividend yield of 5.43%, the top among the big Canadian banks.

CIBC's five-year compound annual growth rate (CAGR) in dividends is 4.9%.

Expenses over at CIBC are rising, as we can see in the efficiency ratio that was reported in the bank's second-quarter results. As a reminder, the efficiency ratio is calculated as expenses (excludinginterest) divided by revenue. It measures a bank's ability to turn its assets into revenue, and so thelower the ratio, the better.

In the second quarter, CIBC reported an efficiency ratio of 56.1%, a 170 basis point increase versus last quarter and a 20 basis point increase versus last year. Higher spending on strategic initiatives that are expected to drive future growth was the reason for this, such as spending on digital banking. For full year 2019, management expects the efficiency ratio to be higher than previously expected, as this increased strategic spending will be ongoing.

Furthermore, loan growth is slowing, as we can see in the second-quarter results, where loan growth was 2%, down from a 2.6% growth rate last year, as mortgage and real estate secured loans experienced a sharper pullback than management had expected, especially in large urban markets.

Finally, provisions for credit losses (PCLs) were higher, with the PCL ratio coming in at 27 basis points, and expected to rise to 30 basis points in 2020.

All of these factors are a reflection of the bank's heavy reliance on Canada, with only 10% of revenue coming from the U.S.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank is a very different bank, and has held a leadership position for many years now. It has branched out very successfully into the U.S, which now represents over 35% of the bank's income.

TD Bank's five-year CAGR in dividends is 9.5%, and this dividend is backed up by the bank's once-a-year dividend increase policy. The latest dividend increase was a 10% increase.

Today, TD Bank offers shareholders a dividend yield of 3.92%, and while the bank trades at a premium to CIBC and its peers, this premium is warranted.

This is illustrated perfectly in the bank's latest results.

The bank reported a surprisingly strong 4.2% increase in Canadian P&C EPS, a much better performance than CIBC and Canadian banks in general and a 15% increase in U.S. P&C earnings, as loan growth was 5.6% and lower expenses brought the efficiency ratio up.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)

3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/02
Date Created
2019/06/16
Author
karenjennifer