Comparing Canada’s Banks: Is Bigger Really Better?

Description

Canada’s Big Banks are some of the hottest investments on the market. Not only have they outperformed their larger peers south of the border, but in many ways, they offer some of the best-paying dividends on the market.

But which of the Big Banks are best for your portfolio? Today we’ll take a look at both **Royal Bank of Canada** (TSX:RY)(NYE:RY) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM)

The case for Royal Bank

Royal Bank is the largest of Canada’s Banks with a massive network of locations both within Canada and abroad. That international presence is of particular note, particularly as most of the Big Banks have turned to foreign markets to fuel growth.

In the case of Royal, the bank has operations both in the U.S. as well as in 34 other countries, including the RBC Caribbean brand, which spans 17 countries with over 1 million clients. In the U.S., Royal’s holdings include Los Angeles-based City National Bank.

That impressive international footprint provides a third of all revenue, which in the most recent quarter amounted to an impressive $3.2 billion, thereby reflecting a 6% increase over the same period last year.

An interesting point to note is that Royal’s business is highly diversified when compared to some of its peers. The Personal and Commercial segment provides just under half of the company’s earnings, while the Capital Markets and Wealth Management segments provide a further 22% and 18% of earnings, respectively. Royal’s Insurance segment and its Investor and Treasury Services segment each provide 6% of the bank’s earnings.

In terms of a dividend, Royal offers a quarterly dividend with a yield that works out to 3.87%. Royal has also offered investors a steady stream of bi-annual hikes stemming back nearly a decade. In addition to that handsome return, Royal is targeting to maintain its payout ratio between 40-50% while maintaining solid growth of near 7% for the rest of 2019.

Royal Bank currently trades at $105 at writing, just shy of its 52-week high with a P/E of 12.15.

The case for CIBC

When CIBC acquired PrivateBancorp back in 2017, investors thought the bank was finally addressing the long-standing concern of not being adequately diversified against CIBC's large mortgage book in Canada.

Following an earnings miss in the most recent quarterly announcement last month, CIBC's stock price dropped over 5%. CIBC reported earnings of $2.97 per share in that quarter, while analysts had been expecting the bank to post earnings of $2.99 per share.

While the stock has clawed back those losses in the past few weeks, CIBC remains priced at attractive levels.

CIBC offers investors an appetizing quarterly dividend with a yield of 5.33%, handily making the stock one of the best-paying on the market. CIBC has also maintained annual or better hikes to that dividend since the Great Recession, with the most recent uptick coming this past spring.

CIBC currently trades at just over $105 at writing with a P/E of 9.25.

Which is the better investment?

Both banks make a compelling investment case and both offer an attractive dividend and a diversified mix of holdings both within Canada and abroad.

In my opinion, CIBC remains the better investment of the two, which comes down to the higher yield and the bank being more attractively priced at the moment. Furthermore, CIBCs investments into the future should bode well for long-term investors, with the bank forecasting 5-10% EPS growth for the future.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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Date
2025/08/24
Date Created
2019/06/24
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