



Should You Buy Bank of Nova Scotia (TSX:BNS) or CIBC (TSX:CM) Stock Today?

Description

Canadian bank stocks have picked up a nice tailwind in recent weeks, and investors are wondering which ones might be attractive picks today for a TFSA or RRSP portfolio.

Let's take a look at **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) to see if one deserves to be on your [buy list](#) right now.

Bank of Nova Scotia

Bank of Nova Scotia is Canada's third-largest bank with a market capitalization of \$92 billion.

The bank is unique among its peers in that it has spent billions of dollars over the past decade to build a significant presence in Latin America. Bank of Nova Scotia owns banks and credit card portfolios in Mexico, Peru, Chile, and Colombia.

This might sound like a risky venture, but the economies of the four countries have stabilized over the years and offer significant growth potential.

As members of the Pacific Alliance trade bloc, these four markets effectively act as one, with labour, capital, and goods allowed to move freely among the member countries. As businesses expand and middle-class wealth increases, Bank of Nova Scotia should see strong demand for its products and services.

The bank missed earnings expectations for a few quarters due to expenses connected to restructuring of the international operations and three large acquisition it made over the past year. The fiscal Q3 2019 numbers, however, came in quite strong. Bank of Nova Scotia earned adjusted Q3 net income of \$2.25 billion compared to \$2.26 billion in the same period last year.

Adjusted return on equity (ROE) dipped slightly to 14.5%. The company maintains a strong capital position with a CET1 ratio of 11.2%.

The board just raised the quarterly [dividend](#) by \$0.03 to \$0.90 per share. That's good for a yield of 4.8%.

The stock has rallied from \$68 in August to \$75 but still sits well below the \$84 it hit in late 2017 and trades at a reasonable 11.3 times trailing earnings.

With the bulk of the international restructuring completed and integration of the new acquisitions going well, Bank of Nova Scotia should deliver strong results in the coming quarters and the stock could take a run at the previous high.

CIBC

CIBC is Canada's fifth-largest bank with a market capitalization of \$49 billion. The bank has a history of making big blunders, including bad bets on subprime mortgages that resulted in billions of dollars of writedowns during the financial crisis.

The bank's current risk lies in its large exposure to the Canadian residential housing market. This contributed to the stock's slide in the past year when interest rates were rising and the housing market started to cool down.

In recent months, the tide has changed, and a drop in bond yields has led to lower fixed-rate mortgage costs, providing a new boost to the housing market and reducing risks of defaults by homeowner who have to renew.

CIBC has also expanded its presence in the United States with more than \$5 billion in acquisitions. The American business provides a revenue hedge and gives CIBC a good platform to expand its operations south of the border.

The bank delivered better-than-expected fiscal Q3 2019 results, and that has led to a rebound in the share price. Adjusted net income came in at \$1.42 billion in the quarter compared to \$1.4 billion in Q3 2018.

ROE is at 15.6%, and CIBC maintains a strong CET1 ratio of 11.4%.

CIBC also just raised its dividend. The new quarterly payout of \$1.44 per share provides an annualized yield of 5.2%.

The stock trades at \$110 per share, which is about 9.7 times trailing earnings and up from the August low near \$98. CIBC traded as high as \$124 last year.

The bottom line

Bank of Nova Scotia and CIBC pay above-average dividends that continue to grow and should both be

solid picks for a TFSA or RRSP portfolio.

If you only buy one, CIBC still appears cheap, so I would make the baby of the Big Five Canadian banks the first pick today.

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