Should You Buy Royal Bank of Canada (TSX:RY) or CIBC (TSX:CM) Stock Right Now?

Description

The Canadian banks often hold anchor positions in self-directed RRSP and TFSA portfolios.

Bouts of volatility connected to housing worries and global trade tensions have occurred in the past couple of years, but the banks continue to generate strong returns.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **CIBC** (TSX:CM)(NYSE:CM) to see if one deserves to be on your buy list today.

Royal Bank

Royal Bank is a giant in both the Canadian and international banking sectors. In fact, it is considered one of the few global banks that is too big to fail.

Fortunately, the business is solid, and investors shouldn't have to worry about Royal Bank going bust. The company has a balanced revenue stream coming from a mix of personal banking, commercial banking, insurance, wealth management, capital markets, and investor and treasury services.

The Canadian operations provide the largest part of the revenue and profits, while the U.S. and international business units provide a good hedge against any trouble in the home country.

The bank is investing heavily in digital products and solutions to ensure it remains competitive in a rapidly changing environment where more people are using their phones, tablets, and computers to do their banking.

Royal Bank reported fiscal Q3 2019 net income of $3.3 billion, or $2.22 per share. That's a 5% and 6% increase, respectively, over the same period in 2018. Return on equity was a solid 16.7%, and the company remains well capitalized with a CET1 ratio of 11.9%.

The Canadian residential mortgage portfolio, which is considered a potential risk, was $295.5 billion at the end of Q3. The housing exposure appears large, but Royal Bank's market capitalization is $155 billion.

The board raised the dividend when Royal Bank issued the Q3 results. The hike represented a 3% increase. The current payout provides a dividend yield of 3.9%.

The stock currently trades at $108 per share, or 13.1 times trailing earnings.

CIBC

CIBC is often viewed as the riskier pick among the big Canadian banks due to its heavy reliance on the Canadian economy and, more specifically, the housing market.

At the end of fiscal Q3 2019, CIBC had a total Canadian residential mortgage portfolio of $223 billion. The bank has a market capitalization of $51 billion.

As we can see, its exposure is much larger than that of Royal Bank when the size of the company is taken into consideration.

CIBC is taking steps to diversify its revenue stream, and that should help balance out the risk profile. the bank invested more than $5 billion in the past two years to buy assets in the United States.

The U.S. commercial banking and wealth management operations generated adjusted net income of $182 million in fiscal Q3 2019. Total adjusted net income in the quarter was $1.4 billion.

CIBC remains well capitalized with a CET1 ratio of 11.4%. Return on equity was a solid 15.5% in the quarter.

The board raised the dividend by about 3% for the fourth quarter. The new quarterly payout of $1.44 per share provides an annualized yield of 5%.

CIBC trades at $114 per share, or 9.8 times trailing earnings.

Is one a better bet?

Royal Bank and CIBC are both top-quality companies that generate strong profits and should be solid buy-and-hold picks.

If you only buy one, I would probably go with CIBC as the first pick today.

The stock arguably carries more risk than Royal Bank, but the gap in the price-to-earnings multiples appears overdone, and you get paid a great dividend while you wait for the market to realize that CIBC is undervalued.

CATEGORY

1. Bank Stocks
2. Investing

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)
4. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/07/21
Date Created
2019/11/13
Author
aswalker