Contrarian Investors: Is CIBC (TSX:CM) or TD (TSX:TD) Stock a Market Crash Buy Today?

Description

The 2020 stock market crash caught most people by surprise.

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While investors knew the bull market would eventually end, nobody anticipated the steep correction that occurred over the past several weeks.

The **TSX Index** is down about 30% since February 20 and ongoing volatility is expected.

The sell-off hit a wide range of industries and companies are reducing staff numbers to preserve cash flow. Government programs to assist the unemployed and help businesses stay in operation during the downturn are on the way, which should reduce the economic fallout while the country works through the crisis.

Opportunity in top bank stocks

While analysts have different views on when a rebound will occur, many predict a strong recovery in late 2020 and 2021. Government stimulus measures could trigger a new bull market and one area of interest for investors is the Canadian banking sector.

The share prices of Canada’s top five banks are down significantly from their 2020 highs. Business investment is grinding to a halt and consumers are facing challenges amid the sharp spike in unemployment. Bank results could be ugly in the coming few quarters, but the long-term outlook should be positive.

Let’s take a look at **Canadian Imperial Bank of Commerce** (TSX:CM) and **Toronto-Dominion Bank** (TSX:TD) to see if one deserves to be on your contrarian buy list right now.

CIBC

CIBC traded for $109 per share in February. In March, it bottomed out below $68. At the time of writing, Canada’s fifth largest bank trades near $78.

The market sees CIBC as a higher risk than its larger peers due to the size of the Canadian residential mortgage portfolio. CIBC finished fiscal Q1 2020 with about $220 billion in housing loans. That’s quite large on a relative basis.

In the event that defaults surge and house prices tank, CIBC would likely take a bigger hit than its peers among the top five banks.

Investors will see how things pan out, but the CEO recently indicated a dividend cut is not planned. CIBC held the payout steady through the Great Recession and that should be the case during the current downturn. The board actually raised the distribution in February.

Investors who buy today can pick up a yield of 7.4%.

CIBC trades at just 7.1 times trailing earnings. The bank has a strong capital position, with a CET1 ratio of 11.3% at the end of the latest quarter.

TD

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Analysts generally consider TD to be the safest pick among the large Canadian banks. The company gets most of its revenue from retail banking operations and with an extensive U.S. business to balance out the revenue stream.

TD’s mortgage portfolio is significant at $293 billion, but TD’s market capitalization is $103 billion compared to $35 billion for CIBC.

The stock is down from $76 in February to $57, putting the dividend yield at 5.5%. The board raised the payout by 7% earlier this year.

The U.S. retail banking operations accounted for about 30% of adjusted net income in the last quarter. The U.S. economy is taking a heavy hit as a result of the coronavirus outbreak. As such, investors should brace for rough results in the American division in the coming months.

On the upside, the U.S. government is spending trillions of dollars to support the economy and a boom could be on horizon.

TD trades at 8.6 times trailing earnings right now. The bank finished fiscal Q1 2020 with a CET1 ratio of 11.7%.

Is one a better bet?

CIBC and TD both appear oversold today and should be attractive picks for a buy-and-hold portfolio.

Income investors might want to make CIBC the first pick for the higher dividend yield. The stock likely carries more risk, but the payout should be sound.

If you want a good yield from a top bank stock that is considered a safer bet, I would probably go with TD at this price.

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2. NYSE:TD (The Toronto-Dominion Bank)
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