



Should Bank of Nova Scotia or CIBC Stock Be on Your Buy List?

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) and **CIBC** ([TSX:CM](#))([NYSE:CM](#)) are on a roll. Let's take a look at the two Canadian banks to see if one deserves to be on your [buy list](#).

Is Bank of Nova Scotia the best bank stock to buy for future growth?

Bank of Nova Scotia surged from \$54 per share in late October to the current price near \$77. The strong rally came after investors realized the bank's business is holding up better than some might have expected earlier in the pandemic.

Bank of Nova Scotia reported fiscal Q1 2021 earnings that were slightly higher than the same quarter last year. Adjusted net income came in at \$2.4 billion, up 3% compared to Q1 2020.

Return on equity (ROE) improved from 13.9% to 14.4%. The bank finished the quarter with a CET1 ratio of 12.2%.

Canadian banking adjusted net income increased 1% to \$915 million. Global wealth management income jumped 34% to \$425 million. The capital markets group saw net income rise 20% to \$543 million. Finally, international banking net income slid 32% to \$398 million.

As the global economy moves into recovery mode, Bank of Nova Scotia's international group has the potential to outperform in the next few years. The operations are primarily located in Mexico, Peru, Chile, and Colombia. The pandemic hit the Pacific Alliance countries hard, but they could see a strong rebound amid unprecedented global stimulus efforts.

Base metals and oil markets impact the economies of these four countries. The price of oil is up substantially since November. WTI oil currently trades near US\$60 per barrel, and analysts are predicting it could hit US\$75 this year. That's good news for Mexico and Colombia.

Copper prices recently hit a nine-year high. The metal is a key component in the manufacturing of

electric vehicles, solar panels, and wind turbines. A strong copper market helps [Peru and Chile](#).

As the middle class expands in the four Latin American countries, Bank of Nova Scotia should benefit from rising demand for loans and investment products.

The stock has a price-to-earnings multiple of 14.5 right now and provides a 4.7% [dividend](#) yield.

Is CIBC stock still cheap?

CIBC stock rose from \$97 per share in late October to the current price near \$121. The stock plunged below \$70 last March during the worst of the crash. CIBC is widely viewed as being the most exposed to the Canadian housing market. Initial projections from Canada Mortgage and Housing Corporation (CMHC) for a 9-18% tumble in house prices didn't pan out. In fact, the record-low mortgage rates that emerged as a result of the pandemic have driven home prices higher.

Housing strength looks set to continue while mortgage rates remain low. That bodes well for CIBC.

The bank reported Q1 2021 adjusted net income of \$1.64 billion, up 11% from Q1 2020. Adjusted ROE increased 110 basis points to 17.2%. CIBC finished the quarter with a CET1 ratio of 12.3%, so it likely has much more capital than it needs now than most mortgage deferrals have ended and the housing market remains robust.

The personal and business banking group reported a 13% Q1 gain in net income to \$652 million. CIBC's Canadian commercial banking and wealth management operations saw net income rise 5% to \$354 million. The bank's U.S. commercial banking and wealth management group enjoyed a 12% net income gain to \$155 million. Capital markets net income surged 30% in the quarter to \$493 million.

Overall, CIBC had a strong start to fiscal 2021.

The stock trades at 13.2 times earnings and offers a 4.8% dividend yield at the current price.

Is Bank of Nova Scotia or CIBC a better buy today?

Bank of Nova Scotia and CIBC are both great companies that pay attractive dividends that should continue to grow. CIBC offers a better yield and trades at a cheaper multiple right now. If you think the housing market is clearly out of the woods, CIBC might be the one to buy.

Otherwise, Bank of Nova Scotia looks good for its long-term growth opportunity in the international business.

I would probably split a new investment between the two banks today.

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