



Better Buy: BNS Stock or CIBC Shares?

Description

The sale in big Canadian bank stocks has become ridiculous, especially for **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) stock; it offered a dividend yield of as high as 5.8% last week. The market continues to be concerned about high inflation, rising interest rates, and a higher likelihood of a real recession.

Yet the big Canadian banks have survived and come out stronger from bad economic times countless times before. More recently, there was the COVID-19 pandemic that led to economic shutdowns and supply chain issues around the globe. Around 2008 was the global financial crisis, which tarnished the credibility of the capital markets. But Canada's well-regulated financial system remains one of the soundest on the planet.

In those shakeups, the big Canadian banks kept on being solid businesses and share profits with their shareholders by maintaining or increasing their dividends. For example, in fiscal 2021, Bank of Nova Scotia made 133% more in earnings per share (EPS) than in fiscal 2009. Its dividend per share is also 107% higher.

Right now, BNS stock and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) stock provide the highest dividend yields among the Big Six Canadian [bank stocks](#). Safe dividend income is one of the most attractive traits of the banks. Which is a better buy?

BNS stock

The bank has global operations, but it's still a very Canadian bank. In fiscal 2021, it generated 68% of its adjusted earnings domestically. Another geography that it has key focus on is the Pacific Alliance region — namely, Mexico, Peru, Chile, and Colombia.

At \$73.33 per share, BNS stock offers a 5.6% dividend yield that's hard to beat. The dividend is safe, as its payout ratio is estimated to be about 48% this year. This is within the normal range of 40-50% for the big Canadian banks.

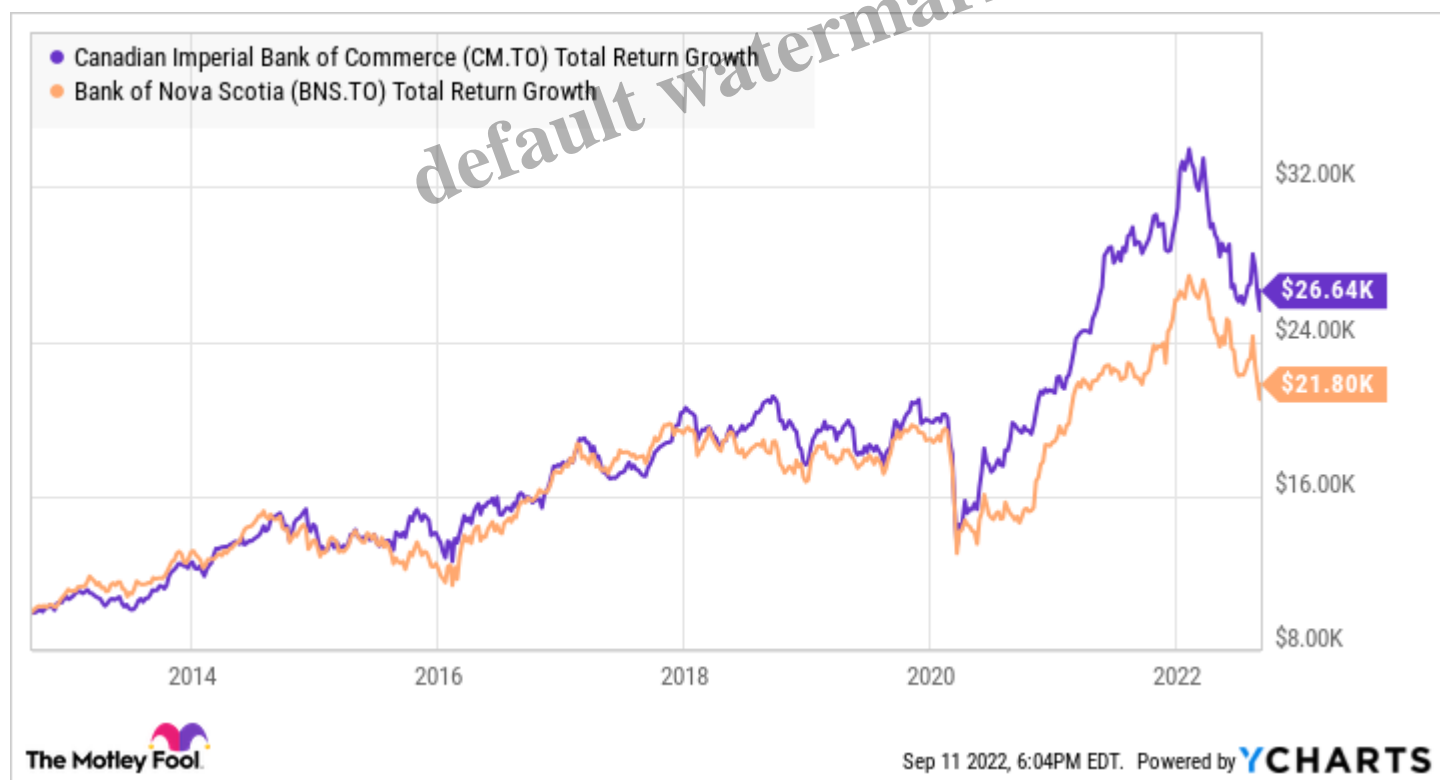
The [dividend stock](#) is also discounted by just over 25% from its intrinsic value based on its normal long-term valuation. The bank targets a medium-term EPS growth rate of 7% or higher. Let's be more conservative and assume a growth rate of 5%, which is closer to its five-year EPS growth rate of 5.4%. It would still result in an approximated total return of 10.6%, assuming no valuation expansion.

CIBC stock

CIBC has a diversified business across these segments: Canadian Personal and Business Banking, Canadian Commercial Banking and Wealth Management, U.S. Commercial Banking and Wealth Management, and Capital Markets.

At \$63.80 per share, CIBC stock offers a dividend yield of 5.20%, which is not far off from BNS's yield. The dividend is safe, as its payout ratio is estimated to be about 44% this year.

Despite CIBC stock offering a slightly smaller dividend yield than BNS stock, it could be a better buy for total returns. CIBC stock has outperformed BNS stock in the last three, five, and 10 years. On a \$10,000 initial investment a decade ago, investors in CIBC stock would have made \$4,840 more, turning their investment into \$26,640.



CM Total Return Level data by YCharts

Currently, CIBC stock trades at a discount of just over 15% from its intrinsic value based on its normal long-term valuation. The bank targets a medium-term EPS growth rate of 5-10%. The bank achieved EPS growth rates of about 7% in the past five and 10 years. Let's be more conservative and assume a growth rate of 6%. It would still result in an approximated total return of 11.2% with no valuation expansion.

Foolish investor takeaway

Both banks trade at discounts. So, you probably can't go wrong with either of the bank stocks at current levels. If I had to invest in only one of the stocks today, I'd lean towards BNS stock because of its higher yield and bigger discount that can help drive stronger long-term price appreciation should its international strategy works out.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Bank Stocks
2. Investing

Date

2025/08/15

Date Created

2022/09/18

Author

kayng

default watermark

default watermark