



4 Reasons CIBC Should Be in Your Portfolio

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) released first-quarter results last week, describing it as a “record performance”.

The concern often cited with CIBC is its muted growth prospects. Further concerns include reliance on the domestic market amid a tentative economic recovery, the fact that nearly 70% of earnings are from retail and business banking, slower personal borrowing, and worries over a real-estate bubble.

However, there is a strong case to be made for CIBC. Here are four reasons to put this stock on your watch list.

1. Attractive valuation, strong fundamentals

Over the past year, CIBC’s stock hasn’t reached the lofty heights achieved by its peers.

During the past 12 months, CIBC stock appreciated just 8.2%. In comparison, **Toronto Dominion** ([TSX:TD](#))([NYSE:TD](#)) increased nearly 18%, and the **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) increased 15% and 14% respectively. At 10.6, CIBC offers the most attractive forward price-to-earnings ratio amongst its peers.

In addition, management’s effectiveness at putting shareholders money to work is reflected in return on equity, which indicates the level of profitability generated with shareholder money. CIBC’s trailing 12-month ROE is 19%, by far the best of the big 5 banks.

2. Income

CIBC provides shareholders with one of the highest dividends amongst North American banks. And it hasn’t missed a regular dividend since its first payment in 1868, a year after Canadian confederation!

Over the last four quarters, CIBC shareholders received dividends of \$3.86 per share, and the company offers a current dividend yield of 4.2%. It should be noted, however, that CIBC raised its dividend by just 2%, to 98 cents, during its most recent quarter. That’s a modest increase in comparison to Toronto Dominion’s 9% and Royal Bank’s 6% raise, and a signal that CIBC’s dividend

may not be increased again for a few quarters.

3. Solid earnings growth

Adjusted net income for the first quarter was \$951 million, compared with \$882 million for the same period a year earlier, an increase of nearly 8%. Retail and business banking rose 11%, wholesale banking grew 10% and wealth management increased an impressive 31%.

With the baby-boom generation easing into retirement, wealth management is becoming an important growth driver for the banks. CIBC recently completed the acquisition of Atlantic Trust, a U.S. private wealth management firm with US\$24 billion in assets under management. This purchase is a key element of CIBC's plan to diversify its business, and reduce reliance on the retail and business banking segment.

4. Financial strength

Bloomberg's ranking of the world's strongest banks looks at various factors, including a bank's Tier 1 capital, a core measure of a bank's financial strength, nonperforming assets, reserves for loan losses and its efficiency ratio, which compares costs with revenues.

Its analysis confirms that Canada has one of the world's strongest banking sectors. Four of Canada's five largest banks made the list. And CIBC claimed the spot as the world's third strongest bank, behind only OCBC Bank and Qatar National. This should give investors great confidence, even as the spectre of the 2007/2008 global financial crisis fades from memory.

Foolish bottom line

As Canada's smallest of the major banks, and the one most dependent on domestic retail and business banking, CIBC's stock has significantly underperformed its peers over the past 12 months. However, with an attractive valuation, high dividend yield, strong earnings momentum, and hailed as one of the world's strongest banks, CIBC is a worthy addition to an investor's diversified portfolio.

And with Statistics Canada announcing late last week that the nation's gross domestic product grew at an annualized rate of 2.9% between October and December, while also revising upward two of the previous three quarters, being dependent on the local economy may not be such a bad thing after all.

CATEGORY

1. Investing

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3. TSX:BMO (Bank Of Montreal)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:RY (Royal Bank of Canada)
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Author

jklacey

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