



3 Reasons to Buy Canadian Imperial Bank of Commerce

Description

Among Canada's big five banks, none were burned during the financial crisis quite like **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)). In fact, CIBC always seems to be the bank caught in the middle of big blow-ups, or as one analyst famously put it, "most likely to walk into a sharp object." One only needs to look back at the Enron fiasco, and CIBC's \$2.5 billion settlement payment, for another example.

So why would anyone want to put their money in this bank? Well, below are three reasons.

1. A return to basics

Thanks to its troubled past, CIBC has devoted itself to safe and predictable businesses, above all Canadian banking. In fact Canadian banking accounted for 65% of net income last year. After factoring in other domestic businesses, such as wealth management and capital markets, over 80% of net income and nearly 90% of net assets were attributable to Canada.

So CIBC is not chasing growth in risky areas like it used to. It is also very well-capitalized, with a 10% Basel III Tier 1 Equity Ratio, tied for the highest among the big five.

2. Protection from the housing market

This heavy exposure to Canada leads to an obvious question: what happens if our housing market turns south? This question is especially relevant, given that over 60% of CIBC's loans are mortgages. Would CIBC get hit just as hard as it did in the United States? I think such an outcome is very unlikely.

The Canadian mortgage market is very different from the American one. First off, homeowners cannot walk away from a mortgage as easily as they could in the U.S.; lenders can go after other assets. Secondly, regulations are more robust in Canada than south of the border; borrowers must meet stricter tests. Finally, borrowers in Canada have a harder time getting a mortgage with little to no money down.

It's no accident that losses from mortgages are minuscule in Canada. Just last year, CIBC wrote off

only \$15 million worth of mortgages, a tiny number compared to its \$150 billion mortgage portfolio. We've heard this kind of story before, but in Canada, the environment is much safer, and CIBC's investors should not be so worried.

3. A bargain price

There are two things that hold investors back from CIBC: a troubled history and a lack of growth prospects. These two concerns have caused CIBC to trade at only 10.7 times earnings. This is a very low number for a bank with such strong domestic franchises.

As a result, CIBC has a juicy 4% dividend yield, again a great number for such a strong company. And the news gets better. CIBC still pays out less than half of its income to shareholders. If the bank stays with its back-to-basics strategy, then sooner or later it should devote more of its income to dividends. And given how popular dividend stocks are, such a move should give ample support to the company's stock price.

That being said, this is a company with a troubled history. And history does tend to repeat itself. But this time, the bank seems to have turned the corner. If that is in fact the case, then CIBC may reward its investors very handsomely going forward.

CATEGORY

1. Investing

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