Why Canadian Imperial Bank of Commerce Is Finally a Solid Bet

Description

Canadian Imperial Bank of Commerce (TSX: CM)(NYSE: CM) battled through heavy writedowns during the financial crisis and is now poised for strong growth under its new leader.

CIBC's stock dropped 58% from $102 in October 2007 to $43 in February 2009. Over the past five years, management has worked hard to right the ship and the shares have rebounded to former highs.

Here are three reasons why I think Canadian Bank of Commerce will continue to do well.

1. New CEO with a wealth-management background

CIBC just announced it has found a new CEO to lead the company through the next stage of growth. Victor Dodig, 49, will move into the CEO's office on Sept. 15 as the head of Canada's fifth-largest bank. Gerald McCaughey, the current CEO, is retiring.

Dodig has been the head of CIBC's wealth-management group since 2011. Before that, he ran CIBC's retail banking and sales division. The company has made the expansion of its wealth-management platform a priority. In 2013, CIBC bought private-wealth manager Atlantic Trust.

As an insider with a strong wealth-management background, it is expected that Dodig will look for more asset-management acquisitions to broaden CIBC's private-wealth portfolio.

In Q2 2014, CIBC reported a year-over-year increase in revenue of 24% in its wealth-management business. The increase was 15%, excluding Atlantic Trust.

2. Relationship-focused strategy

CIBC is working hard at being a friendlier bank. The company is building better relationships with its Canadian retail customers by generating more home loans through its branches instead of using brokers. Better relationships lead to more product sales such as credit cards and investments.

The company is also a leader in mobile banking. CIBC was the first Canadian bank to launch eDeposit, a technology that allows business customers to scan, upload and deposit a large number of cheques in a single transaction.

CIBC's mobile banking offer was recognized by Forrester Research as the best of the big five Canadian banks.

3. Reduced risk

McCaughey, 58, took the reins at CIBC in 2005 and has worked hard to reduce risk at the bank. CIBC had to write down more than $10 billion related to bad investments in U.S. subprime mortgages. Today, the company is in much better shape.

CIBC's Common Equity Tier 1 Ratio as of April 30, 2014 was 10%. Second quarter provisions for credit losses were $185 million or 0.31%, down from $244 million in the same period for 2013. The quality of the company's credit card portfolio remains high with net losses at the lowest level in three years.

As of April 30, CIBC had a Canadian residential mortgage portfolio of $147 billion, of which $16.7 billion was connected to the condo market. The total portfolio is 70% insured. The loan-to-value ratio for the uninsured component is 60%.

CIBC has significant exposure to Canada's housing market. An extreme short-term correction would have a negative impact on earnings.

While I believe a housing correction will take place, I think it will occur slowly over the course of a few years, rather than as a sharp drop, and CIBC should be able to manage the downturn without too much pain.

The bottom line

The company pays a dividend of $4.00 that currently yields about 4%. CIBC did a good job of navigating through the crisis and I think the decision to put a wealth-management expert at the helm is a smart one.

All of the Canadian banks have had a fantastic run this year, and a broad pullback in the markets is expected in the short term. CIBC is a good choice for long-term investors. Any correction in the market will provide a great opportunity to buy.

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