



The Pros and Cons of Investing in Canadian Imperial Bank of Commerce

Description

Canadian Imperial Bank of Commerce ([TSX: CM](#))([NYSE: CM](#)) has been described as “the bank most likely to walk into a sharp object.” There have certainly been plenty of examples of this, such as the financial crisis and the Enron debacle.

However, the bank has put a lot of effort into simplifying itself, placing a major focus on plain old Canadian banking. Is CIBC now worthy of your investment dollars? Below we take a look at two reasons to buy, and two reasons to stay away.

Why buy?

1. The wonders of Canadian banking

Unlike banking in the United States, banking in Canada is a very profitable and stable industry. Competition is limited, the different players are relatively disciplined, and customers have become more loyal, too.

As a result of CIBC's focus on Canada, its numbers are quite impressive. In fiscal year 2013, return on equity exceeded 20% despite having industry-leading capital ratios. There are concerns about Canada's housing market, but the bank holds relatively safe assets. Thus, it's less likely to be affected by a housing correction than the other banks.

2. Low price

Relative to the other big five banks, CIBC's stock price is arguably quite cheap — based on Tuesday's close, the shares trade at just 12.3 times earnings, the second-lowest value among its peer group. As a result, the dividend has a juicy yield of 4%.

Better yet, if CIBC proceeds with its stay-at-home strategy, it could eventually devote more of its income to dividends. Given how popular dividends are, that could provide a nice boost to the share price.

Why to avoid

1. Weak growth prospects

Unfortunately, CIBC's stay-at-home strategy does have drawbacks. One of the biggest is its lack of growth prospects. While the other banks are expanding in the United States, in Latin America, or elsewhere, Canadian Imperial Bank of Commerce is relatively grounded.

One area where the bank would like to grow is wealth management. However, wealth management is an industry where customers are extremely loyal — arguably more loyal than they should be. If CIBC wants to gain market share, this will likely have to come through acquisitions. Based on recent transactions, wealth managers do not come cheap.

2. Poor track record

As mentioned, CIBC has made plenty of mistakes over the years. Most recent was its performance during the financial crisis, which resulted in \$10 billion in writedowns. Before that, the bank paid a U.S.\$2.4 billion settlement for its role in the Enron debacle. CIBC was also blindsided by the Asian crisis in 1998.

At a certain point, one has to wonder if CIBC simply has a poor corporate culture, one that leads to taking dangerous risks. If that is indeed the case, then it can take a long time for that to correct itself. You might not want to play that kind of waiting game as a shareholder.

CATEGORY

1. Investing

TICKERS GLOBAL

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