



5 Reasons to Invest in Canadian Imperial Bank of Commerce

Description

When building a portfolio, many investors like to start with one of the big banks. For example, you will often see **Toronto-Dominion Bank** at the top of many Canadian equity mutual funds.

But one bank that often gets overlooked is **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)), perhaps because it is the smallest of the big five. So on that note, below are five reasons to take a closer look at CIBC.

1. There's no place like home

CIBC has been described as the Canadian bank "most likely to run into a sharp object", and this has been a very fitting description. But most of CIBC's past mishaps, such as the subprime crisis and the Enron fiasco, have come outside of Canada's borders.

So CIBC has gone back to its roots: Canadian banking. As a result, the bank is arguably the safest of the big five, as well as the most profitable.

2. The best-capitalized bank

While CIBC has been making great returns in Canada, it has been building up its capital ratios. The result? By the end of Q2 2014, CIBC's Basel III Tier 1 Common Equity (CET1) ratio was a solid 10.0%, the highest among the big five.

In contrast, TD has the lowest ratio, at 9.2%. So arguably this makes CIBC safer and more flexible.

3. Mortgages are safer than they look

There's a lot of concern about Canada's real estate market, with prices at record highs. Many observers believe a correction is due. And over 60% of CIBC's loans are in mortgages. Is this a concern?

Well, not really. Thanks to stiffer regulations, mortgages are much safer in Canada than in the United

States. For example, you cannot escape a mortgage simply by walking away from your house.

Instead, the real risky assets are commercial loans, which can see big losses when the economy is faring poorly. And here again, TD is more exposed. Less than half of its Canadian loans are in mortgages, while nearly 20% are in commercial loans. So CIBC is surprisingly well-prepared to weather any future crisis.

4. Dividend growth possibilities

As mentioned earlier, CIBC is employing what amounts to a back to basics strategy. As a result, growth will be hard to come by. So you would think that CIBC pays out most of its income to shareholders.

But that's not the case at all. Rather, CIBC devotes less than half its income to dividend payments. If the bank continues with its stay-at-home approach, eventually the payout ratio should go up. So there is plenty of potential to get some nice dividend growth with this stock. And given how popular dividends are, such a move would likely result in some capital gains too.

5. A cheap price

Last but certainly not least, CIBC trades at only 12.8 times earnings, a very reasonable multiple for such a solid franchise, and below the average of the other big five banks. Again, to draw a contrast, TD trades at over 15 times.

CATEGORY

1. Investing

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