



Why Canadian Imperial Bank Of Commerce Is a Top Pick

Description

Canadian Imperial Bank of Commerce ([TSX: CM](#))([NYSE: CM](#)) has a history of disappointing investors, but things have changed and it is time to look to the future.

Here are four reasons why I think Canadian Imperial Bank of Commerce is a top pick in the financial sector.

1. Focus on wealth management

CIBC's incoming CEO, Victor Dodig, told investors at a September 3 meeting that the company plans to spend as much as \$2 billion to beef up its wealth management operations.

Canadian Imperial Bank of Commerce bought U.S. private-wealth manager Atlantic Trust in 2013. In the 2014 Luxury Brand Status Index, Atlantic Trust was rated number two among wealth management companies in the U.S.

The Atlantic Trust purchase has proven to be a smart one for CIBC and the company is looking for more acquisitions in the wealth management space.

Dodig, who will take the CEO position on September 15, currently runs CIBC's wealth-management operations and has the experience needed to make smart acquisitions in this sector.

In the Q3 2014 earnings statement, CIBC's wealth management division reported net income of \$121 million, a 19% increase over the same period in 2013.

2. Lower risk profile

After being hammered for taking nearly \$10 billion in write-downs connected to bad bets on the U.S. subprime housing market, CIBC has done a good job of reducing its risk profile.

In the Q3 statement, CIBC reported its Common Equity Tier 1 Ratio as of July 31, 2014, was 10.1%, up significantly from the year-ago level of 9.4%.

The company has also done a good job of reducing its exposure to bad loans. Provisions for credit losses were down by \$107 million or 13% in the first nine months of 2014 compared to the same period in 2013. The company said the drop is the result of lower write-offs in the credit card portfolio.

3. Dividends and share buybacks

Canadian Imperial Bank of Commerce is returning significant cash flow to its shareholders. The company announced in the Q3 earnings report that it plans to buy back up to 8 million common shares in the next 12 months.

CIBC also pays a \$4.00 per share dividend that yields about 3.8%. The dividend has been increased four times in the past two years and investors should see another increase in 2015.

4. Stronger customer focus

Canadian Imperial Bank of Commerce is making a lot of changes to build better relationships with its customers.

A push to originate more mortgages in the branches should lead to better add-on product sales such as credit cards, lines of credit, and investments.

The recent partnership with **Tim Hortons Inc.** on a credit card and points program is another way the company is connecting with its clients.

CIBC has also become a mobile-banking leader in Canada with its eDeposit services. The technology allows customers to scan, upload, and deposit multiple cheques in a single transaction. In the Q3 earnings statement, CIBC said more than 1 million cheques have been deposited using the feature in the CIBC mobile application.

The bottom line

Bank shares have had a good run and some of the banks, including CIBC, have high exposure to the Canadian housing market. Investors need to have a long-term outlook given some of the current risks.

Canadian Imperial Bank of Commerce is heading in the right direction by focusing on wealth management, enhancing customer relationships and rewarding shareholders with increasing dividends. Investors looking to initiate a long-term bank position in their portfolio should consider CIBC as a top pick.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)

2. TSX:CM (Canadian Imperial Bank of Commerce)

Category

1. Bank Stocks
2. Investing

Date

2025/09/14

Date Created

2014/09/04

Author

aswalker

default watermark

default watermark