



Canadian Imperial Bank of Commerce vs. Sun Life Financial Inc.: Which is a Safe Income Investment?

Description

One is a bank and the other is an insurance company, but both **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) and **Sun Life Financial Inc.** ([TSX: SLF](#))([NYSE: SLF](#)) have placed a priority on growing their wealth management operations.

Let's take a look at the two companies to see if one offers long-term investor a better opportunity right now.

Canadian Imperial Bank of Commerce

CIBC's investors suffered through \$10 billion in write-downs during the financial crisis. The losses were tied to the American mortgage market and some analysts are now turning their eyes to the Canadian housing market and wondering if more trouble is coming for CIBC. We'll look at that in a moment.

After the Great Recession, CIBC shored up its balance sheet. In its Q3 report, CIBC said it had a Basel III Common Equity Tier 1 (CET1) capital ratio of 10.1%, the second-best among the Big Five banks. The ratio is a measure of the bank's financial stability.

CIBC's new CEO, Victor Dodig, previously ran the wealth management side of the business and recently stated the company plans to spend up to \$2 billion on acquisitions to grow this part of the company. In 2013, CIBC bought U.S. private-wealth manager Atlantic Trust. The purchase has turned out to be a profitable one as the wealth management division reported a 19% jump in year-over-year net income for the quarter end July 31, 2014. Dodig plans to build on that success.

Now, back to the housing market.

After the crash, CIBC also decided to refocus its efforts on Canadian retail lending. The strategy has been very profitable in the past few years, but some analysts are concerned the company is too heavily exposed to the Canadian housing market.

As of July 31, CIBC had \$103.8 billion in residential mortgages on its balance sheet. The insured

portion represented 69% of the portfolio and the loan-to-value ratio on the rest was 59%.

Canadian Imperial Bank of Commerce trades at 13 times earnings. The company pays a dividend of \$4 per share that yields about 3.9%.

Sun Life Financial

Sun Life is Canada's third-largest insurance company. It also had a rough time during the financial crisis, but gained respect from the market for holding its dividend steady throughout the turbulence.

The stock has rebounded well on the back of strong equity markets and a world-class asset management business. Sun Life's MFS Management grew assets under management by 24% in the second quarter of 2014 compared to a year earlier. The Boston-based wealth manager is targeting overseas growth as it beefs up staff and expands operations in international markets where it sees opportunities to offer its products to middle and upper-income investors.

Sun Life Financial's international unit is betting heavily on opportunities in Asia, with a strong focus on India, China, the Philippines, Indonesia, Malaysia, and Vietnam.

In Q2 2014, Sun Life Canada contributed 44% of total revenue. Sun Life's U.S. unit added 30%. MFS contributed 15%, and 7% came from Sun Life Asia. Corporate earnings represented the final 4%.

Sun Life finished Q2 2014 with a Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio of 222%. The minimum required by the Canadian government is 150%.

Sun Life pays a dividend of \$1.44 per share that yields about 3.6%. The stock trades at 14.3 times earnings.

Which should you buy?

The two companies trade at about the same valuation and offer comparable dividends. If investors want exposure to wealth management growth without the risks tied to the Canadian housing market, Sun Life is probably the safer bet right now.

CIBC's residential mortgage portfolio doesn't look too risky on the surface, but the company only has a market cap of about \$41 billion. If the Canadian housing market falls hard, CIBC's shares could get hit bad because it is so focused on Canadian retail earnings. If you own bank shares or are thinking about buying them, you might want to read the following report.

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1. Bank Stocks
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TICKERS GLOBAL

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