



## 3 Reasons to Buy Canadian Imperial Bank of Commerce

### Description

Over many years, **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) has been the bank “most likely to run into a sharp object.” This one-liner refers to numerous mistakes, the most recent one being more than \$10 billion in losses from subprime mortgage exposure in the United States. As a result, its shares have lagged its peers over the past decade, and many investors refuse to own the shares at any price.

But CIBC has changed a lot since the bad old days, and today is a company you should seriously consider owning. Below are three reasons why.

#### 1. Now arguably the safest bank

This is a very difficult thing for many investors to believe. But CIBC has gotten back to plain old Canadian banking, and as a result is arguably Canada’s safest bank. The numbers tell the story.

Last fiscal year, Canada accounted for about 83% of net income, and a similar percentage of major assets. As a result, the bank earned a return on equity of 20.9%, tops among the big five banks. And unlike before, this profitability did not come from taking outsized risks – the bank’s capital ratios consistently rank above the peer average.

That being said, there are concerns about growth, and some are worried about so much income coming from one country. But given CIBC’s history, growth should not be a top priority. And if you hold CIBC in a well-diversified portfolio, you shouldn’t have to worry about its concentration in Canada.

#### 2. Potential for dividend increases

Unlike Canada’s other big banks, CIBC doesn’t really emphasize international growth. Yet oddly, the bank still pays out less than half of its earnings to shareholders.

To illustrate, CIBC has earned over \$8 per share in the last year, yet still pays out only \$4 per share in dividends. By comparison, **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)) also pays out just under half its net income to shareholders, about the same as CIBC. This despite the fact that RBC has grand

ambitions to grow its Capital Markets and Wealth Management businesses globally.

There is no reason why CIBC can't raise its payout to 70-80% of earnings, about in line with the big three telecoms. And given how sought after dividends are, such a move would drastically improve CIBC's share price.

### **3. A reasonable price**

As it stands, CIBC trades at only 12.6 times earnings. This compares favourably with RBC, which trades for nearly 14 times earnings. And the telecoms can easily trade into the high teens.

So there is plenty of room for CIBC's shares to go up. To illustrate, suppose it raised its dividend to 75% of earnings. And then the shares traded with a 5% dividend yield. The stock price would then stand at over \$120, a nice jump from the \$105 that CIBC shares trade at now.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)

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