



## Canadian Imperial Bank of Commerce: Should You Buy, Hold, or Sell?

### Description

**Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) is often overlooked by investors in favour of its larger peers, but the company might be worth considering if you plan to add a financial stock to your portfolio.

Let's take a look at the current situation to see if CIBC deserves your money right now.

### Earnings

CIBC reported record adjusted earnings in 2014 with strong contributions coming from most areas of the business. For the year ended October 31, net income increased by 9% in retail and business banking, 12% in wholesale banking, and 25% in wealth management.

A shift in the company's retail strategy appears to be paying off. CIBC used to rely heavily on brokers for mortgage sales, but the company now originates most of the new business in the branches. This helps employees build stronger relationships with customers and provides an opportunity to sell additional credit, savings, and investment products. Year-over-year deposits, mortgages, and mutual fund sales rose 9%, 15%, and 17% respectively in 2014. Part of this is attributed to low rates but the increased focus on customer service probably helped. The retail banking division also got a nice boost from the launch of the Tim Hortons credit card program.

### Focus on wealth management

Victor Dodig, CIBC's new CEO, told investors and analysts in September that he plans to spend as much as \$2 billion on strategic acquisitions to increase the size of the company's international wealth management business.

CIBC bought U.S.-based Atlantic Trust in 2013 for \$210 million when Dodig was the head of the wealth management group. That acquisition has proven to be a profitable one and Dodig is setting his sights on bigger deals. In fact, he wants to see CIBC generate 40% of its wealth-management revenue from international sources within the next five years.

CIBC is not the only company heading in this direction. **Royal Bank of Canada** just spent \$5.4 billion to buy U.S.-based wealth manager City National. Last year, **Bank of Montreal** spent \$1.3 billion for U.K.-based F&C Asset Management plc.

### **Job cuts and new hires**

Canadian Imperial Bank of Commerce recently cut 500 jobs in an effort to reduce costs as the industry faces tougher operating conditions. The company also said it plans to add as many as 5,000 new employees in 2015 in specific areas where it sees growth opportunities.

### **Residential mortgage risks**

CIBC ended the 2014 fiscal year with \$152 billion in Canadian residential mortgages on its books. Two-thirds of the portfolio was insured and the remaining mortgages had an average loan-to-value (LTV) ratio of 60%. The low percentage of uninsured mortgages is certainly positive, but the size of the portfolio is a bit concerning. Canadian Imperial Bank of Commerce only has a market cap of about \$37 billion. This compares to Royal Bank's market cap of \$110 billion, and its year-end mortgage portfolio of \$192 billion.

### **Dividends**

If you are looking for a stock that pays consistent dividends, Canadian Imperial Bank of Commerce is about as good as it gets. In fact, the company hasn't missed a dividend payment since 1868. CIBC increased the dividend five times in the past four years and the current distribution of \$4.00 per share yields about 4.4%.

### **Should you buy?**

The ongoing threat of a slowing economy and a possible housing crash have pundits concerned that the Canadian banks are going to take a beating in the next couple of years. CIBC could get hit harder than its peers because it receives about 65% of its earnings from the Canadian retail operations. The company finished 2014 with a Basel III capital ratio of 10.3%, which means it is more than capable of handling some economic turmoil, but a severe downturn would be bad news for CIBC's shareholders.

As a long-term investment, CIBC has proven to be a solid bet, and 12 times earnings isn't a bad price to pay for this company. Having said that, the stock is probably a hold right now given the current downtrend in the shares.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

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