



3 Reasons to Buy Canadian Imperial Bank of Commerce

Description

The year was 1868. Canada had only just become a country. The telephone was still eight years away from being invented. Andrew Johnson was still in the White House, after taking over for an assassinated Abraham Lincoln. John D. Rockefeller was barely beginning in the oil business.

And in Canada, a small, fledgling bank called the Canadian Bank of Commerce paid investors the first of many dividends. It later merged with the Imperial Bank of Canada to form **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), one of Canada's largest banks. Ever since paying that first dividend a year after it was formed, the bank hasn't missed a dividend in the 146 years to follow.

That's a great track record.

And that's just scratching the surface of this storied institution. Here are three more reasons why investors should own this Canadian banking titan.

A great value

In a world where the overall TSX price-to-earnings ratio is approximately 18 times, it's difficult to find value.

Trading at just 12.6 times its trailing earnings, CIBC is definitely at the cheap end of the market. Analysts expect earnings to climb to \$9.19 per share in 2015, putting the stock at less than 10 times forward earnings. In an environment with very few cheap stocks, CIBC starts to look like a pretty compelling value.

Plus, the company's dividend is an eye-popping 4.6% after its latest dividend increase. The company has only yielded that much once in the past three years for about two weeks back in 2012.

Investors are shunning the stock for a couple of reasons. They're nervous about loans made to risky oil producers and afraid of the Canadian housing bubble. Those are valid concerns, but perhaps they're overblown. Remember, most of the Canadian economy is still humming along pretty well.

A great retail brand

I've spent more time than I'd care to admit trying to figure out the differences between each Canadian bank's retail business. To be honest, for the most part they're all about the same. They all do a great job, and all have interesting growth initiatives.

CIBC gets approximately 65% of its income from its Canadian retail banking operations, which is higher than most of its competitors. Exciting projects include teaming up with Tim Hortons to launch a branded credit card, as well as becoming the first major Canadian bank to offer remote deposit capture, which means taking pictures of cheques with your smartphone to deposit into your account.

The company has 1,100 bank branches, all doing their best to sign customers up for mortgages, wealth management services, and other financial products. That's a strong brand.

Potential catalyst

Ever since getting burned with its first foray into U.S. retail banking, CIBC has been slowly dipping its toe back in the water south of the border.

The focus has been growing its wealth management business, which generates about 15% of the company's net income when combined with the Canadian operations. Although it has made some good headway in the U.S., the results really aren't moving the needle.

One of the reasons why CIBC is cheaper than its peers is because of its overexposure to Canada. If it bought a U.S. bank, investors would likely act positively to the news, sending shares higher. A U.S. acquisition offers both a potential growth channel, as well as diversification from a Canadian economy that some pundits are saying is getting weaker.

There are potential risks to CIBC's business, but it isn't very often investors get the chance to buy one of Canada's big five banks at a forward P/E ratio of under 10 and with a dividend yield above 4.5%. This looks to be a pretty solid entry point for this great bank.

CATEGORY

1. Bank Stocks
2. Investing

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