3 Reasons You Should Turn to Canadian Imperial Bank of Commerce for Dividend Growth

Description

If you're looking for steadily growing dividends, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) may not be high on your radar screen. Yet among the Canadian banks, it is one of the best positioned to increase its payout for years to come.

Below we look at three reasons why.

1. Not as risky as you think

CIBC is often seen as a very risky stock, and it's easy to see why. The bank has had numerous hiccups over its history—most recently, the company lost over $10 billion on sub-prime loans during the financial crisis. Fast forward to today, and CIBC is almost entirely focused on the Canadian market. Thus the bank is very exposed to all the economic challenges that Canada faces.

But CIBC's riskiness is a lot lower than you would think, and the numbers tell the story. Its oil and gas exposure stands at $16.7 billion, which sounds high, but that's less than 3% of the bank's gross credit exposures. And more than three quarters of this energy exposure is investment grade.

CIBC's exposure to the condominium market is limited as well. Uninsured condo mortgages total just $6 billion, and commitments to condo developers are roughly $3 billion.

Granted, there will be some challenges, and growth may be hard to come by for the next couple of years. But the odds of big losses, as we've seen in years' past, are very slim. That's good news for the dividend.

2. Few other growth initiatives

CIBC's larger peers all have big growth plans abroad. **RBC** wants to grow its Capital Markets business in Europe, and just bought a large American bank. **TD** and **BMO** are both growing in the United States. **Bank of Nova Scotia** is focused on Latin America. All of these growth initiatives will require lots of capital.

But CIBC has no such plans, and remains focused on Canada. This is a good problem to have, at least from a dividend investor's perspective. While growth may be hard to come by, there's nothing preventing the company from paying out more of its earnings to shareholders.

In the most recent quarter CIBC raised its dividend to $1.09 per share per quarter. I see room for plenty more such raises.

3. Plenty of cushion

To be fair, CIBC does have some plans for growth. Most notably, it is looking to grow its asset management business, something that will require at least one acquisition.

But even with those plans, the bank has plenty of excess capital. To illustrate, Canadian banks can feel comfortable with a Common Equity Tier 1 capital ratio of 9%. CIBC's stands at 10.8%—all told, that equals $2.6 billion in excess capital.

By comparison, CEO Victor Dodig said CIBC could spend up to $2 billion to expand its wealth management business. So, even if he follows through with these plans, the dividend should not be impacted at all.

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