Dividend Investors: Is it Time to Buy Canadian Imperial Bank of Commerce?

Description

As concerns build around the state of the Canadian economy, investors are wondering if this is a good time to buy the banks.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the smallest of the Big Five Canadian banks and is perceived as a riskier bet due to some famously large blunders over the years.

During the financial crisis, CIBC wrote off nearly $10 billion in losses connected to bad bets on the U.S. sub-prime mortgage market.

Management learned a lesson and decided to focus heavily on the Canadian market. That decision has been a very profitable one and the company has done very well since the Great Recession, but the irony of the move is that some analysts now think the company is too reliant on Canada.

Let's take a look and Canadian Imperial Bank of Commerce to see if it deserves a spot in your portfolio.

Earnings

CIBC just reported solid results for its Q2 2015 quarter. Adjusted earnings per share came in at $2.28, a 5% increase over the same period in 2014. Adjusted revenue growth was 7% and the company continues to deliver strong returns with a return on equity of 20.2%.

Canadian business and retail operations remain the backbone of CIBC's business. The division earned $584 million in the quarter, compared with $563 million last year. Business credits increased 10% and mortgage volumes increased by 5%. Net interest margins were lower than Q2 2014, but came in better than Q1 2015.

The wholesale banking segment also did well. The group earned $255 million compared with $228 million last year. Most of the gains came from the capital markets activities as the company made more money on equity underwriting and advisory fees.

Wealth management remains an area of growth at CIBC and that trend is likely to continue. The company's new CEO Victor Dodig plans to expand the company's wealth management unit. Dodig used to run the division and is responsible for some of the asset management acquisitions that have proven to be quite profitable for the bank.

The wealth management group earned adjusted net income of $134 million in Q2 2015, up from $121 million the same time last year. Asset management had a particularly strong performance.

Risks

Most analysts are looking carefully at oil and retail mortgage lending exposure when evaluating Canadian banks.

Canadian Imperial Bank of Commerce finished the second quarter with $16.7 billion in direct exposure to the energy sector, up from $16 billion a year ago. The company says 77% of the loans are investment grade.

On the mortgage side, CIBC had $155 billion in Canadian residential mortgages on the books at the end of Q2. About two-thirds of the mortgages are insured and the loan-to-value ratio of the uninsured component is 61%.

The company says it has $38 billion of indirect retail lending exposure to the oil provinces.

Should you buy Canadian Imperial Bank of Commerce?

If the Canadian economy suddenly falls off a cliff, CIBC will get hit harder than its peers because it is much more exposed to the mortgage market than the other banks. However, the bank is very well capitalized with a Basel III capital ratio of 10.8%. As long as there isn't a sharp crash, things look pretty good and the bank is more than capable of riding out a period of weakness.

CIBC pays a dividend of $4.36 per share that yields 4.6%. The company just increased the payout and investors should see that as a sign that management is comfortable with its earnings outlook and the risk profile.

The shares currently trade at an attractive 10 times forward earnings and the distribution looks safe. I think dividend investors with a long-term view should consider adding the stock to their portfolios.

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