Canadian Imperial Bank of Commerce: Is it Time to Buy the Pullback?

Description

Shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) are down 7.5% this year, and investors with a long-term outlook are wondering if now is a good time to start a position in the stock.

Let's take a look at the current situation to see if CIBC deserves a spot in your portfolio.

The ghosts of decisions' past

CIBC tends to carry a cloud over its head due to some nasty moments in the stock's history. The most recent blunder was the $10 billion the company had to write off during the Great Recession due to bad bets on U.S. sub-prime mortgages.

That left a sour taste in investors' mouths as well as a big hole in their pockets if they abandoned ship during the worst days of the financial crisis.

But the CIBC of today is a very different company, and the shareholders who remained faithful actually saw the stock regain its pre-crash heights. Much of the credit goes to a renewed focus on bread-and-butter retail operations in Canada.

Return to strong profits

CIBC has ridden the wave of low interest rates to impressive results over the past six years as Canadians have gobbled up mountains of cheap debt in the form of fat mortgages and hefty lines of credit. CIBC used to get much of its mortgage business through brokers, but management realized it was missing out on all the potential add-on sales by doing this.

With a renewed focus on in-branch service, CIBC is getting more of its mortgage customers by getting them to buy investment products and sign up for new credit cards.

The results are impressive, even as the Canadian economy enters a rough patch.

CIBC reported Q2 2015 adjusted earnings of $2.28 per share, a 5% improvement over the same period in 2014. Adjusted revenue growth was a solid 7% and return on equity remains north of 20%.

Dividends

The company has a strong history of dividend growth and that trend continues. CIBC recently hiked the payout to $4.36 per share, which is good for a nice yield of 4.7%. The decision to bump up the distribution in the face of a difficult market sends a strong message to investors that management is comfortable with both the earnings outlook and the health of the loan portfolio.

Economic risks?

CIBC is more exposed to the domestic market than its larger peers. At the end of Q2 the company had $155 billion in Canadian residential mortgages on its books. This is a lot for a company with a market capitalization of just under $37 billion.

To put things in perspective, **Royal Bank's** market cap is $110 billion, or about three times the size of CIBC, but its residential mortgage portfolio is only 50% larger at $222 billion.

CIBC also has a sizeable exposure to energy, with just under $17 billion in direct lending tied to the sector.

Should you buy CIBC?

A meltdown in the Canadian economy will certainly hit the bank hard, but that is unlikely to happen.

The probable scenario is a slowdown, which will prompt the Bank of Canada to keep rates at current levels, or even drop them to spur growth. If that happens, the mortgage market will continue to see strength.

CIBC is very well capitalized with a Basel III capital ratio of 10.8%. This means it is more than capable of weathering a downturn.

At this point the stock is trading at less than 10 times forward earnings and two times book value. These are attractive metrics based on the five-year average. Further weakness in the shares should be seen as a buying opportunity for long-term investors.

CATEGORY

1. Bank Stocks
2. Investing

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