



Canadian Imperial Bank of Commerce: Is it Still a Safe Investment?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) is catching a bit of a tailwind after its recent pullback, and investors are wondering if the stock is still a safe pick given the concerns about the Canadian economy.

Let's take a look at the current situation to see if Canada's fifth-largest bank deserves to be in your portfolio.

Earnings

Canadian Imperial Bank of Commerce suffered a heavy blow during the financial crisis when it had to write down \$10 billion in bad bets on the U.S. subprime market. Management learned from its mistakes and decided to refocus its energy on building a stronger Canadian retail operation.

The first plan of action was to bring more customers into the branch. CIBC used to get much of its mortgage business through brokers, but the company realized it was missing out on opportunities to sell additional products such as credit cards, lines of credit, and investment services.

CIBC also decided to expand its wealth management operations. The company now has more than 1,500 advisors in Canada and the U.S. working in the areas of asset management, retail brokerage, and private wealth management.

The new strategy has been a success.

In Q2 2015 CIBC's retail and business banking group reported net income of \$583 million, a 7% year-over-year increase. Wealth management reported net income of \$129 million, up 10% compared with Q2 2014. Wholesale banking delivered net income of \$250 million, a 17% gain.

Dividends

Dividend investors have been pleased with the company's performance. CIBC pays a distribution of \$4.36 per share that yields about 4.7%. The company has increased the distribution eight times in the

past five years.

Risks?

The company's heavy domestic focus has delivered great results, but that strategy is now the reason for analyst concern.

CIBC finished Q2 with \$155 billion in Canadian residential mortgages. That's a lot when you consider the bank's market capitalization is just \$37 billion. About two-thirds of the portfolio is insured and the loan-to-value ratio on the uninsured portion is 61%, so the risk profile is low, but the exposure is still quite heavy.

As a point of comparison, **Royal Bank** has a market cap of about \$110 billion, about triple the size of CIBC, but its mortgage portfolio is just \$222 billion.

CIBC has \$38 billion of mortgage exposure to oil provinces, of which Alberta represents about \$30 billion. Direct exposure to the oil and gas market is just under \$17 billion, of which 77% is investment grade.

Should you buy CIBC?

The company is very well capitalized with a strong Basel III CET1 ratio of 10.8%. Adjusted return on equity remains above 20% and management is comfortable enough with the earnings outlook that it increased the dividend last quarter.

A total meltdown in the Canadian economy and housing market would certainly hit the company hard, but that scenario is unlikely to occur. The probable outcome is a controlled pullback, and CIBC is well positioned to weather that downturn.

The shares currently trades at an attractive 9.7 times forward earnings. More volatility could be ahead for the bank, but investors with a long-term outlook should be comfortable holding the stock.

CATEGORY

1. Bank Stocks
2. Investing

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1. Editor's Choice

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