



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

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) is often overlooked in favour of its larger peers, but recent movements in the stock suggest that might be changing. Let's take a look at CIBC to see if dividend investors should be putting Canada's fifth-largest bank at the top of their watch list.

Earnings strength

CIBC just reported solid earnings for the quarter ended July 31, despite the headwinds facing the domestic economy.

Adjusted overall net income came in at \$990 million, up from \$908 million in the same period last year. Retail banking and wealth management led the way with strong results, delivering 8% and 16% year-over-year earnings gains. Wholesale banking was the only laggard, reporting a 4% drop in profits. Return on equity for the period was a healthy 20.6%.

CIBC is a leader in adopting digital banking technologies. The company was the first to roll out an e-deposit system that allows customers to deposit checks electronically, and is the first major Canadian bank to enable visa payments via smartphones. The bank has also put more emphasis on getting mortgage customers into the branch. In the past, CIBC relied heavily on brokers, but that meant the company was losing out on opportunities to sell other products.

These new customer-focused initiatives appear to be paying off.

Dividend growth

CIBC just increased its quarterly dividend by three cents per share. The new annualized payout of \$4.48 per share yields 4.65%. It's the ninth increase in the past five years.

Risks

CIBC has been under pressure for most of this year because analysts are concerned about the

company's heavy exposure to both the Canadian housing market and the struggling energy sector.

As of July 31, CIBC had \$159 billion in mortgages on its books. That's a lot for a company with a market capitalization of \$39 billion, but 65% of the portfolio is insured and the loan-to-value ratio on the remaining mortgages is 60%. This means the housing market would really have to fall off a cliff for CIBC to get into trouble. Most analysts think a controlled slowdown is the more likely scenario.

On the energy side, CIBC has \$17.4 billion of direct exposure the oil and gas sector with 79% of the loans classified as investment grade. The overall quality of the loan portfolio is solid, but defaults could start to hit the numbers if the oil rout continues for an extended period of time.

Should you buy CIBC?

The bank is very well capitalized with a Basel III CET1 ratio of 10.8%. This is important because it means CIBC is capable of riding out a Canadian recession as well as a pullback in the housing market. The company isn't as insanely cheap as it was a week ago, but the stock still trades at an attractive 10 times forward earnings.

Long-term investors should be comfortable buying the shares, even after the big bounce.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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