



## 4 Reasons to Put Canadian Imperial Bank of Commerce on Your Radar

### Description

**Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) has a reputation for big blunders, and that tends to drive investors towards its larger peers. But Canada's baby of the Big Five banks has cleaned up its act and investors should start giving it more respect.

Here's why.

#### 1. Strong earnings

Amid a difficult economic environment, CIBC is delivering solid results.

For the quarter ended July 31, the company reported adjusted net income of \$990 million, up from \$908 million during the same quarter last year.

CIBC continues to see strong numbers in its Canadian retail unit, which produced a healthy 8% jump in year-over-year earnings. The company has shifted its strategy in recent years, and is much more focused on building strong relationships with its clients.

CIBC used to originate a large part of its mortgages through brokers, but has moved most of that business into the branches. This gives staff a chance to sell add-on products and services such as lines of credit, credit cards, and investments.

CIBC is also a leader in the shift to mobile banking. The company was the first to roll out an e-deposit service that allows customers to deposit cheques using their mobile devices. Now, CIBC's customers can use their smartphones to make visa payments.

The company has also expanded its wealth management operations, and that decision is bearing fruit, with the division delivering a solid 16% gain in earnings compared with 2014. Victor Dodig, CIBC's new CEO, used to run the wealth management business and plans to continue building the segment.

#### 2. Dividend growth

Management appears to have confidence in the earnings outlook because the company just increased the quarterly dividend by three cents per share. The new payout comes in at \$4.48 on an annualized basis and yields an attractive 4.8%. This is the ninth increase in the past five years, and investors should feel very comfortable with the safety of the distribution.

### 3. Manageable risks

CIBC is heavily reliant on Canada for its revenue and earnings, and this is a concern for some analysts.

The company finished the most recent quarter with \$159 billion in Canadian residential mortgages on the books. This is a lot considering the company has a total market capitalization of \$38 billion, but the quality of the portfolio is good. About 65% of the mortgages are insured and the loan-to-value ratio on the rest is 60%. In order for CIBC to run into trouble, the Canadian housing market would have to go into a sharp free fall, and that is unlikely to be the case. Most pundits expect a controlled pullback.

CIBC also has a large portfolio of energy loans. In the latest earnings statement the company said it had \$17.4 billion of direct exposure to the oil and gas sector with 79% of that classified as investment grade. As the oil rout continues, investors will have to keep an eye on those numbers.

Overall, CIBC is very well capitalized with a Basel III CET1 ratio of 10.8%. This means the company is more than capable of riding out an economic slump as well as further weakness in the oil sector and a slowdown in the housing market.

### 4. Cheap valuation

The stock has rebounded nicely from the recent sell-off, but investors can still pick it up for a reasonable price. The shares currently trade at an attractive 9.7 times forward earnings.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

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