Canadian Imperial Bank of Commerce: Should Dividend Investors Buy or Sell?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), the smallest of Canada's Big Five banks, is often overlooked when investors are considering a financial company for their portfolio.

Let's take a look at CIBC to see if it deserves to get more respect.

Comeback kid

CIBC took a bit hit during the financial crisis when bad bets on the U.S. subprime mortgage market resulted in more than $10 billion in write-downs. The stock dropped more than 60% in less than 18 months, and many investors gave up on the stock.

Management overhauled the company's strategy and decided to refocus on the Canadian retail market as well as build a stronger wealth management division. Those decisions have proven to be very successful.

Since the crash, CIBC has recovered most of its lost ground, and investors are wondering if more growth is on the horizon.

Earnings

The Canadian economy is in a technical recession, but you wouldn't know it by looking at CIBC's results for the third quarter that ended July 31. The company reported adjusted net income of $990 million, up from $908 million in the same period last year.

CIBC is seeing resilience in its Canadian retail unit, which delivered an 8% year-over-year gain in earnings. Part of the success is due to CIBC's efforts to get more customers into the branches.

Historically, the bank relied on brokers for a significant part of its mortgage business, but that meantthe company missed out on opportunities to sell other products. By bringing most of the mortgageinitiations into the branch, the company has been able to initiate new investment and credit revenuesfrom its mortgage clients.

Digital leader

CIBC has also led the way in the mobile banking space. The company was the first Canadian bank to roll out a mobile e-deposit service and is now making life even easier for its customers by allowing them to make visa purchases using their smartphones.

Dividend growth

CIBC just increased the quarterly dividend by three cents per share to $1.12. That's good for a yield of 4.75%.

Investors should see the increase as a vote of confidence in the company's earnings outlook.

Risks

The heavy focus on Canada means CIBC is the most exposed to troubles in the Canadian economy. The company finished the third quarter with $159 billion in Canadian residential mortgages on its books. That's a lot compared with the other banks when you look at the company's market capitalization.

The portfolio is large, but it is also quite safe. Only 35% of the mortgages are uninsured and the loan-to-value ratio on that portion is a reasonable 60%.

CIBC also has $17.4 billion of direct exposure to the oil and gas sector, but 79% of the loans are considered investment grade.

Should you buy?

CIBC has a CET1 ratio of 10.8%, which means it is very well capitalized and capable of weathering a period of weakness in the economy.

If the housing prices fall significantly in a very short period of time, CIBC will be more affected than its peers, but most analysts expect the housing market to pull back in a controlled manner.

If you own the stock, it should be a safe long-term holding. If you are looking to put new money into a bank stock, CIBC is a solid bet, but it might be safer to go with one of the larger companies right now because they have more exposure to international markets and are trading at similar valuations.

CATEGORY

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2. Investing

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