Income Investors: it's Time to Buy Canadian Imperial Bank of Commerce

Description

Over the years, there haven't been many stocks better at building wealth for Canadians than our banks.

The consistent history of each of these huge financial institutions is perhaps the most impressive part. Canada's so-called Big Five banks have been paying uninterrupted dividends since the 1800s.

Think about everything that's happened since then. The world has gone through two World Wars, countless recessions (and even depressions), and a multitude of other scandals have threatened to rock the banks.

And yet, throughout it all, not only have the banks survived, but they've prospered. Dividend growth each year has been almost automatic, with the exception of a few pauses each time something bad happens.

Canada's banks have consistently performed so well that it seems like the only question investors need to ask themselves is which one they should add to their portfolio. Here's the case for making it **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

It's cheap

There are two main metrics I like to use to value Canada's banks–the price-to-earnings ratio and the return on equity.

Let's start with return on equity. Over the last 12 months, CIBC has posted a return on equity of 20.6%, easily beating the peer average, which was 16.1%. CIBC has consistently beaten the peer average over the last five years as well, and has posted a return on equity of greater than 20% over the last 23 quarters.

On a price-to-earnings perspective, CIBC is also attractively valued. Shares trade hands at just 10.4 times earnings on the Toronto Stock Exchange, which is nearly 20% cheaper than the most expensive stock in the sector, **TD Bank**. The only large Canadian bank that trades at a cheaper valuation is **National Bank of Canada**.

The reason why CIBC is cheaper than its peers is because of a lack of American exposure. Over the last 12 months 65% of earnings has come from its retail banking division, which is almost entirely dependent on revenues from Canada. As the Canadian economy has slipped, so has investor confidence.

CIBC knows this and is taking steps to diversify. The company sees a lot of potential in the wealth management business, especially in the U.S. market. Management has made it known the company does intend to beef up its presence outside of Canada by making wealth management acquisitions.

A great dividend

When comparing it with the rest of the Big Five, CIBC's dividend almost can't be beat.

The current yield is 4.8%, which is the highest payout in its peer group. The next highest out of the Big Five is **Bank of Montreal**, which pays out 4.7%.

CIBC also offers an attractive payout ratio. Over the last 12 months the company has earned $8.94 per share, while paying out $4.30 in dividends. That's a payout ratio of just 48%, which is very low for a company with a yield approaching 5%.

The big risk

Of course, we can't talk about a Canadian bank without mentioning the housing market. CIBC looks to be especially vulnerable because of its Canadian-centric approach.

There is certainly the risk of housing temporarily hurting CIBC's bottom line. Bulls argue that the company is protected from any prolonged downturn in housing because it used mortgage insurance to transfer the risk of high loan-to-value ratio mortgages.

Ultimately, it comes down to this. If Canada's housing bubble pops violently, there's a risk to the banks. If the country gets the soft landing everybody wants, companies like CIBC will only really have to contend with weaker growth for a little while going forward.

CIBC is a great bank with a history of paying consistent dividends. Even in today's market, there aren't many other companies that can give investors that with a reasonable valuation. For those reasons, CIBC is one of my top picks in the sector today.

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