3 Reasons Why Canadian Imperial Bank of Commerce Is a Strong Buy

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), the fifth-largest bank in Canada, has watched its stock remain relatively flat in 2016, but I think it will head significantly higher from here for three primary reasons. Let's take a closer look at these reasons to determine if you agree and if you should take it one step further by initiating a position today.

1. Its strong earnings results could support a continued rally

On February 25, CIBC announced very strong first-quarter earnings results, and its stock has responded accordingly by rising over 4% in the trading sessions since. Here's a quick breakdown of 10 of the most notable statistics from the report compared with the same period in fiscal 2014:

1. Adjusted net income increased 7.6% to $1.03 billion
2. Adjusted earnings per share increased 8.1% to $2.55
3. Total revenue increased 3.7% to $3.59 billion
4. Total assets increased 7.6% to $479.03 billion
5. Total deposits increased 11% to $377.23 billion
6. Total loans and acceptances, net of allowance, increased 9.6% to $301.3 billion
7. Total assets under administration increased 2.1% to $1.83 trillion
8. Total assets under management increased 4.4% to $169.39 billion
9. Total common shareholders' equity increased 13.7% to $20.77 billion
10. Book value per share increased 14.3% to $52.56

2. It's trading at very inexpensive forward valuations

At today's levels, CIBC's stock trades at just 9.6 times fiscal 2016's estimated earnings per share of $9.53 and only 9.3 times fiscal 2017's estimated earnings per share of $9.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.2 and the industry average multiple of 12.8.

With the multiples above and its estimated 4.7% long-term earnings growth rate in mind, I think CIBC's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of $117 by the conclusion of fiscal 2017, representing upside of more than 27% from today's levels.

3. It has one of the best dividends in the market

CIBC pays a quarterly dividend of $1.18 per share, or $4.72 per share annually, which gives its stock a high and safe yield of about 5.2%.

Investors must also make three important notes.

First, CIBC has raised its dividend for six consecutive quarters.

Second, it has raised its annual dividend payment for five consecutive years, and its recent hike has it on pace for 2016 to mark the sixth consecutive year with an increase.

Third, the company has a target dividend-payout ratio of 40-50% of its adjusted net earnings, so I think its consistent growth should allow its streak of quarterly and annual dividend hikes to continue going forward.

Is there a place for CIBC in your portfolio?

Canadian Imperial Bank of Commerce is a strong buy, so all Foolish investors should strongly consider beginning to scale in to long-term positions today.

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