Canadian Imperial Bank of Commerce: Should You Buy This Stock Today?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has enjoyed a nice rally off the February low, and investors are wondering if the stock is still an attractive pick.

Let's take a look at the current situation to see if CIBC deserves to be in your portfolio.

Earnings

CIBC reported record Q1 2016 earnings of $1 billion. Earnings per share came in at $2.55, up 8% compared with the same period last year. Revenue rose 6% and return on equity for the quarter was an impressive 19%.

The company's retail and business banking operations drove most of the growth with adjusted net income in the group rising 12% compared with Q1 2015. Deposits rose 8%, as did mortgages. Business credit increased 12%.

Adjusted net income in the wealth management operation fell 7.5%, and the capital markets group saw net income decline about 7%. Both groups struggled with challenging market conditions in the quarter.

Overall, the quarter was decent, but CIBC is relying heavily on new Canadian mortgages to drive growth.

Risks

The oil rout and sky-high housing prices have some investors concerned the Canadian banks are going to take a big hit.

CIBC finished Q1 2016 with $18.7 billion in direct oil and gas exposure, of which $6.9 billion is drawn. The company says 74% of the loans are considered investment grade.

On the housing side, the company ended Q1 with a Canadian residential mortgage portfolio of $166 billion. The uninsured component represents 39% of the portfolio, and the loan-to-value ratio on those loans was 59%.

Based on its size, CIBC relies more on energy and housing loans than its peers. The majority of the energy exposure is considered high quality, and the mortgage portfolio looks reasonably safe, so there shouldn't be too much concern as long we don't see a material deterioration in the two sectors.

Dividend

CIBC recently raised its quarterly dividend by three cents to $1.18 per share. That translates into a solid 4.7% yield at the current stock price. The company has raised the payout aggressively over the past five years after holding it steady through the financial crisis.

Should you buy?

The company's fortunes are heavily connected to the Canadian economy, so another downturn in oil prices or a bursting of the housing bubble would hit CIBC harder than its peers.

The dividend yield is certainly attractive, and the company continues to put up great numbers, but I think holding CIBC in the mid-term carries more risk than owning the other banks. With the stock is trading near its 12-month highs, I would wait for a better entry point.

CATEGORY

1. Bank Stocks
2. Investing

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