Canadian Imperial Bank of Commerce: Should You Own This Stock?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is up 14% this year, and investors who missed the rally are wondering if more gains are on the way.

Let's take a look at Canada's fifth-largest bank to see if it deserves to be in your portfolio.

Earnings

CIBC just reported solid adjusted Q3 2016 net income on the back of strong results from all three of its core business units.

Retail and business banking adjusted net income came in at $666 million–up $36 million, or 6%, compared with the same period last year. Personal deposits rose 7%, mortgages increased 9%, business deposits were up 9%, and business lending jumped 14%.

Wealth management net income increased 10% on an adjusted basis once the effects of the sale of a minority interest in American Century Investments are taken into consideration. Strong revenue growth in the asset management segment countered lower transaction volumes in retail brokerage.

The capital markets group reported net income of $304 million, which is up $39 million, or 15%, on a year-over-year basis.

Risks

Bank investors are concerned about threats posed by the energy and housing sectors.

CIBC finished fiscal Q3 with $7.1 billion in loans to oil and gas companies. Investment-grade loans represent 57% of the portfolio. The company has an additional $10.1 billion in undrawn exposure.

CIBC's loan losses from energy companies fell in Q3, and most of the big banks believe the worst is over for oil and gas companies.

On the housing front, CIBC has $175 billion in Canadian residential mortgages. Insured mortgages represent 57% of the portfolio, and the loan-to-value ratio on the remaining loans is 57%.

The company says a 30% drop in house prices would result in less than $100 million in mortgage losses, so things will have to get pretty bad before the bank takes a big hit.

Growth

CIBC recently announced plans to purchase **PrivateBancorp., Inc.**, a Chicago-based commercial bank, for US$3.8 billion.

The acquisition will provide a nice complement to Atlantic Trust, CIBC's U.S.-based wealth management arm, and gives the company's Canadian clients access to U.S. banking services.

The deal is expected to close in early 2017.

Dividends

CIBC has a strong track record of dividend growth, and investors should see further increases once the new U.S. assets start contributing to earnings. The quarterly payout of $1.21 per share yields 4.7%.

Should you buy?

The energy and Canadian housing portfolios are large when you compare CIBC to its peers, so the stock is going to be more volatile if things get really ugly. Having said that, the company is well capitalized and appears more than capable of riding out turbulence in both markets.

The addition of the U.S. commercial bank will help diversify CIBC's revenue stream in the coming years, and that should reduce some of the risk in the stock.

CIBC pays a safe dividend with a very attractive yield. The stock isn't as cheap as it was earlier in the year, but investors who buy now should still do well over the long term.

CATEGORY

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2. Investing

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