TFSA Investors: Is Canadian Imperial Bank of Commerce a Safe Dividend Pick?

Description

Canadians are searching for solid companies with big dividends to put in their TFSA accounts.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if it deserves to be in your portfolio.

Earnings results

Canadian banks are facing some economic headwinds, but CIBC continues to post solid results.

The bank's retail and business banking unit generated fiscal Q3 2016 net income of $666 million–a gain of $36 million, or 6% year over year. All areas performed well, including a 9% increase in mortgages, a 7% rise in personal deposits, a 9% gain in business deposits, and a 14% jump in business lending.

Wealth management net income rose 10% on the back of solid revenue growth in the asset management group. This helped offset lower transaction volume in the retail brokerage operations.

CIBC's capital markets group also reported impressive numbers. Net income rose $39 million, or 15%, to $304 million.

Growth outlook

CIBC is more exposed to the Canadian market than its larger peers. Management knows this and recently announced a significant acquisition that will help balance out the revenue stream.

The bank is looking south of the border to drive growth with its $3.8 billion purchase of **PrivateBancorp Inc.**, a commercial bank based in Chicago. When the transaction closes in early 2017, CIBC will be able to offer U.S. banking services to its Canadian clients.

The deal also provides a nice complement to CIBC’s U.S.-based wealth management group, Atlantic Trust.

Risks

CIBC has generated fantastic results in recent years by focusing heavily on the Canadian oil and housing sectors. The other side of that coin is a higher-risk profile now that the energy patch is struggling, and the housing market could be at risk of a major pullback.

CIBC finished fiscal Q3 with $7.1 billion in oil and gas loans, plus an additional $10.1 billion in undrawn exposure. Loan losses from the segment fell in Q3, and most of the big banks believe the worst is over for their energy portfolios, but investors will have to keep a close eye on the sector.

Regarding housing, CIBC ended Q3 with $175 billion in Canadian residential mortgages. Insured mortgages make up 57% of the portfolio, and the loan-to-value ratio on the remaining loans is 57%. This means house prices would have to fall significantly before CIBC takes a big hit.

In fact, the company said a 30% drop in house prices would result in less than $100 million in mortgage losses, so investors should be reasonably comfortable with the exposure.

Dividends

CIBC has a strong track record of dividend growth, and investors should see the trend continue. The current quarterly distribution of $1.21 per share yields 4.8%.

Should you buy?

CIBC is well capitalized, and the oversized exposure to the Canadian market looks manageable, despite some of the risks.

The addition of PrivateBancorp will help balance out the revenue stream, and investors could see more diversification efforts in the coming years.

CIBC isn’t as cheap as it was earlier this year, but investors still get a great dividend yield, and this stock should perform well over the long haul.

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