Forget the Naysayers: Canadian Imperial Bank of Commerce Is the Bank to Bet on

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) currently provides investors with the highest dividend yield of the Big Five Canadian banks at 4.8%. Its detractors will tell you there's a reason for this industry-leading yield.

Perhaps. But I'm here to tell you that the smart move is to follow Warren Buffett's advice when it comes to the smallest of Canada's five big banks: be greedy when others are fearful.

CIBC may be Canadian-centric, but CEO Victor Dodig has it on a course that will deliver long-term shareholder value. Here are a few reasons I believe this to be true.

Of all the big banks, Dodig is the CEO who's most supportive of a risk-sharing program with the federal government and CMHC when it comes to insured mortgages. Although Dodig admits the new rules will result in lower mortgage-lending business for all five of the banks, he's confident that the slowdown will be manageable.

Equally important, in Dodig's opinion, is the idea that banks remain competitive while not appearing to be getting a free ride from Canadian taxpayers.

“I think that what makes sense is that we have a good consultative period where we can have a dialog between all stakeholders so that the Canadian system stays stable and that Canadian taxpayers are not seen as supporting financial institutions but that Canada's financial institutions remain competitive and there is stability in the system,” Dodig said recently.

None of his peers have been nearly as open to changing the way risk is shared on insured mortgages. This alone should capture the imagination of investors.

In August, CIBC chief risk officer Laura Dottori-Attanasio highlighted the reasons she felt CIBC was in great shape should a housing correction take place. Chief among them was the fact the bank's mortgage business would take less than a $100 million hit from an economic scenario in which unemployment rose to 11% and home prices fell by 30%.

She went further, suggesting that its mortgage business in Vancouver and Toronto is actually stronger than elsewhere in Canada.

"When we look at our greater Toronto and Vancouver markets, we have better [credit] scores than the national average, lower at origination loan to values, our serious arrear rates are much lower than our overall portfolio, and so the credit quality is very high in these particular segments," Dottori-Attanasio told analysts in an August conference call.

While Fool.ca contributor Nelson Smith worries CIBC is overexposed to Canadian real estate, Dottori-Attanasio's comments would seem to mitigate those risks to a certain extent.

CIBC's financial performance has been solid so far in 2016. Its third-quarter results, ended July 31, saw adjusted net income grow by 8.3% to $1.1 billion. Aided by a 6% increase in net income for its Retail and Business Banking segment and a 15% increase in its Capital Markets segment, it's no surprise that CIBC was able to deliver adjusted return on equity in Q3 2016 of 19.8%—400 basis points higher than the average of its peers, which includes the other four big banks as well as **National Bank of Canada**.

The only downside to its third-quarter results was in its Wealth Management segment, which experienced a 12% decline year over year on an adjusted basis as a result of lower retail brokerage revenue due to fewer transactions in the quarter. However, this was offset to a certain extent by higher assets under management.

Included in the wealth management's reported net income was a $383 million after-tax gain from the sale of its 41% minority interest in American Century Investments to Japan's **Nomura Holdings**. CIBC then rolled those gains into its $4.9 billion acquisition of PrivateBancorp, Inc., a Chicago-based middle market commercial bank that specializes in private banking and wealth management.

Chicago has more high-net-worth customers on a dollar basis (US$1.2 trillion) than in all of Canada. It's expected to add $400 million in net income after tax by 2020 and, combined with Atlantic Trust, its other U.S. wealth management business, will create a U.S. banking division that in the long term contributes 25% of CIBC's annual earnings.

That last number is why it paid 18 times PrivateBancorp's analyst estimates for earnings per share and 2.2 times tangible book value.

Bottom line

CIBC might be the bank investors love to ignore, but when you can buy its stock at a 25% discount to **Royal Bank of Canada** and the rest of its peers, I wouldn't let its reliance on Canadian revenue stop you from buying a good bank stock at a reasonable price.

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