



## Canadian Imperial Bank of Commerce: It's Still a Screaming Buy

### Description

Earnings season for the big Canadian banks is almost done.

With the exception of **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), which announces Q4 2016 earnings December 6, all the rest have delivered their final quarterly results of the fiscal year.

So far, the news has been relatively good with **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) reporting net income increases of 25%, 20%, and 9% respectively. Only **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) has delivered a decline in net income; it's down 2% from last year.

Before you put your money on TD or BNS, give serious consideration to CIBC because, despite being up 28% on the year, it's still a screaming buy. Here's why.

First, it's got the highest dividend yield of all the major Canadian banks at 4.6% and the lowest payout ratio at 45.5%. If you're an income investor, you shouldn't ignore this double whammy.

### Big Five dividend yield and payout ratio

#### Bank Dividend Yield Payout Ratio (TTM)

CM	4.6%	45.2%
BNS	4.0%	49.9%
BMO	3.9%	50.0%
RY	3.8%	47.7%
TD	3.5%	47.8%

Source: Morningstar

Second, analysts are worried about CIBC's exposure to the Canadian real estate market and its level of uninsured mortgage loans and home equity loans, which sits at 5.4 times its regulatory capital—up from 4.7 times regulatory capital a year ago and considerably higher than the average of Royal Bank, TD, and BNS at 3.3 times regulatory capital.

"They've continued to layer on more risk at a time when there are a lot of warning bells going off and regulators are expressing concern," says Edward Jones analyst Jim Shanahan. "It's clear that they're more exposed to a sharp reduction in real estate values in Canada than any of the other major banks."

The problem I have with most analysts is that they often look for problems where there aren't any.

CIBC's chief risk officer Laura Dottori-Attanasio and its head of retail and business banking David Williamson answered questions from analysts during the conference call, and neither seemed particularly worried about the quality of its loan portfolio.

"If you look at the loan to value for uninsured mortgages originated in B.C. over the last 12 months, of the four banks that have reported so far, ours is the lowest," Williamson said.

CIBC believes it's done a thorough job underwriting its uninsured mortgage portfolio. I see no reason not to believe the bank.

Probably a bigger concern for CIBC is the continuing revitalization of its wealth management business—the cornerstone of any successful bank in the 21st century.

In fiscal 2016, CIBC saw a 9% decrease in the adjusted net income of its wealth management business to \$490 million—\$46 million less than last year. To remedy the slide in income, CIBC has merged its Canadian private wealth management business with its Wood Gundy business under one leadership team to provide a better customer experience for high-net-worth investors.

If you've ever tried to get a bank-owned broker to work with the people in the branch where you do most of your banking, it can be a bit of a farce. This is a smart move, in my opinion.

Lastly, the bank continues to focus on improving the customer experience. In 2016, it improved its client experience rating in the J.D. Power customer satisfaction survey by 22 points and now trails the leader (Royal Bank) by only 11. Further, its IPSOS CSI net promoter scores have been better than its peers over the past four years, suggesting the work it's doing on the customer front will ultimately pay dividends.

## **Bottom line**

CIBC's earnings yield (inverse of P/E ratio) is currently 9.5%—almost 30% higher than its peers. Combine that with the fact the bank's paying 4.6%, or 15% more than any other bank to own its stock, and I just don't see how you can ignore the deal sitting in front of you.

You can listen to the analysts, who are often wrong, or you can make a smart investment decision and go with CIBC—it's a screaming buy.

## **CATEGORY**

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
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