



Canadian Imperial Bank of Commerce: The Bank Stock to Own in 2017

Description

In late December, *the Globe and Mail* proclaimed that **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) by virtue of its performance, or lack thereof, would be the top-performing stock of the Big Five Canadian banks in 2017.

The Globe has been tracking the performance of Canadian bank stocks since 2000, using a Dogs of the Dow approach, where you buy the worst-performing stock of the Big Five banks from this past year and hold for 12 months to the end of 2017, repeating the process in 2018 and beyond.

This automated form of investing has been very successful, delivering an average return of more than 16% a year. By comparison, the **iShares S&P/TSX 60 Index Fund** has generated an annualized return of 3.1% over the same 17-year period.

The competition in 2016 was far closer than in most years, so it's possible that CIBC's distinction as worst-performing bank stock might not translate as well as it has in previous years.

The difference between 2016's fourth-place bank stock — **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) with a total annual return of 26.07% — and CIBC was just 62 basis points. In 2015, the worst-performing bank stock was **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) with a total annual return of -10.44% — 620 basis points clear of CIBC.

In 2016, BNS was the clear winner among the Big Five banks with a total annual return of 38.79% — more than 10 percentage points better than **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)).

The system really works.

However, regardless of whether you believe in these types of automated investment strategies, CIBC is headed for a strong year in 2017. Here's why I believe this to be the case.

- CIBC continues to deliver the best return on equity for its shareholders — 19.9% in 2016 — and it's significantly higher than its four other peers.
- Its CET1 ratio in fiscal 2016 was 11.3% — 60 basis points higher than the average of its four

peers.

- Despite the delay in the **PrivateBancorp** shareholder vote to accept CIBC's US\$47 per share offer, the deal will get done, whether it's at US\$50 or US\$55 per share. It's too important to CEO Victor Dodig's plan to grow the bank outside Canada.
- CIBC will continue to generate peer-beating growth in earnings; much of it is currently generated by a Canadian retail banking business that's been completely overhauled since Dodig took the reins, and by no means is the bank finished improving its customer service. Stay tuned for more news in 2017.
- Despite the bank's critics' assertion that it is overexposed to the Canadian housing market, everything I'm seeing from the bank suggests it's doing as good or better a job underwriting its mortgage business in the real estate hotbeds of Vancouver and Toronto.
- Forget all of the good news, which includes the bank's moves to streamline its wealth management business to better serve its customers, and consider that CIBC gives you the highest dividend yield of the big banks at 4.4%, yet its earnings yield is 9.6%, much higher than its competitors.

Like I said in early December, and I'll say it again, CIBC stock is a [screaming buy](#) in 2017, whether we're including only the big banks or any financial stock trading on the TSX, for that matter.

It's CIBC's year to shine.

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