Canada’s Most Underrated Bank Raises Dividend

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is hiking its quarterly dividend by three cents a share to $1.27 — the ninth increase in the last 10 quarters. That brings its dividend yield to 4.2%, the highest of Canada’s five biggest banks.

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Income investors surely will take notice, but is it enough to convince you to buy this country’s most underrated bank?

I believe it should be. Here’s why.

Unless you truly believe that the four other banks rank considerably higher than CIBC in terms of quality of earnings, strength of balance sheet, and potential future growth, the difference between CIBC at 4.2% and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) at 3.2% over 10 years is substantial.

Is TD really that much better than CIBC that you’re willing to give up one percentage point of yield? I don’t think so.

Some of the numbers from CIBC’s earnings report jump off the page — its Retail and Business Banking segment reported net income of $953 million, which is a 39% increase from a year earlier — but once you back out the $299 million pre-tax gain ($245 million after-tax) from the sale and leaseback of 89 retail properties in B.C. and Ontario, the increase is a more pedestrian 3% over Q1 2016.

However, adjusting for special items, all three of CIBC’s operating units achieved positive growth in the quarter.

Its Capital Markets segment delivered a 50% year-over-year increase in adjusted net income to $371 million on strong trading revenue, increased corporate banking business, and higher equity and debt issuance.

CIBC’s Wealth Management segment, despite being in the middle of simplifying its business platform and coming off some less than stellar earnings reports in 2016, managed to increase its adjusted net income in the quarter by 11% year over year to $135 million on the back of higher assets under management and increased transactional activity.

If you're a long-time CIBC shareholder, the Wealth Management number represents a step forward in the bank's moves to bring together its private banking and CIBC Wood Gundy businesses under one roof, which should bring it additional high-net-worth clients in the future.

"In the first quarter, CIBC delivered strong performance across Retail and Business Banking, Wealth Management and Capital Markets," said Victor G. Dodig, CIBC president and CEO. "We are executing well on our strategy to build a strong, innovative, relationship-oriented bank to deliver growth and reach our goal of being #1 in client experience."

While I'm a fan of CIBC, it's important to read between the lines of Dodig's canned statement from its Q1 2017 earnings release.

Yes, he wants the client experience at CIBC to be the best in the country, and while some of the FinTech awards the bank has received for its online and mobile banking sites is flattering, it has a lot of work remaining if it wants to achieve this goal.

Recently, I mentioned that **Bank of Montreal** was the best of the big banks at responding to online inquiries via social media, email, online forms, etc. Regrettably, while BMO was the best, CIBC came in a disappointing 21st position out of 26 banks.

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Even I can see through Dodig's hyperbole when it comes to the customer experience. Do not buy CIBC stock if you feel the bank won't be able to fix this part of its business, because it truly is what separates mediocre banks from good ones.

Probably the biggest concern from CIBC's latest report is the 10% increase in its provision for credit losses to $212 million on higher write-offs of credit cards and other loans — something many of my Fool.ca colleagues have been concerned about.

Overall, the bank's impaired loans stand at 0.28% of its net loans and acceptances — two basis points higher than a year earlier, but six basis points less than at the end of October. While it too is something to watch, I don't believe it's a problem.

At the end of the day, CIBC delivered a Common Equity Tier 1 ratio of 11.9% in Q1 2017 — considerably higher than TD's, which stood at 10.4% at the end of October.

I'll be watching as the rest of the banks report, but from where I sit, CIBC remains Canada's most underrated bank.

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