Does Canadian Imperial Bank of Commerce Belong in Your Portfolio?

Description

Since the U.S. presidential election, shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) have been going strong, rising from just under $100 to just about $120 by April. However, since then, the company has given back 11.5%, providing an opportunity for investors looking to pick up shares at a discount.

But just because a company trades at a discount doesn't mean you should immediately pick up shares. First, you'll want to do your due diligence. Nevertheless, here are a few reasons you may want to start buying shares of this company.

At the end of May, CIBC released its Q2 earnings, and they were strong. Adjusted net income was $1.07 billion, which was up from $962 million in Q2 2016. Adjusted diluted EPS was up to $2.64 from $2.40 a year earlier. And finally, the company's return on equity, which is one of the most important indicators when analyzing banks, was 18.1% on an adjusted basis.

All in all, the bank is doing quite well.

CIBC's retail and business banking division saw a $5 million drop in net income, but that's because of $20 million in an acquisition and other intangible costs that the company didn't have a year prior.

Its wealth management unit had net income of $154 million, which is up 36% from the same period last year. And its capital markets division had net income of $292 million — up 16% from the same period last year. The company is operating very efficiently.

CIBC bought Chicago-based PrivateBancorp for US$2.4 billion in cash and 32.3 million CIBC shares. This was a big move because CIBC actually left the United States market over a decade ago with only 5% of its earnings derived from sources south of the border, primarily from its wealth management business.

The expectation is that this acquisition will see the company grow those earnings to account for 10% of total net income. Ultimately, the company wants to see 25% of its earnings from the United States.

This follows in a long line of expansions into the U.S. by Canadian banks.

While there is some concern that the housing market in Canada is overheated — not to mention the over-reliance on energy — in the United States, the economy is incredibly strong and provides a strong opportunity to continue boosting earnings.

Whether the bank grows its earnings in the U.S. organically or through further acquisitions remains to be seen, but either way, this is a big positive for CIBC.

Another reason to buy CIBC is because of its dividend. It currently yields 4.79%, which is good for a quarterly dividend of $1.27. With a payout ratio of only 50%, I see little reason to worry about this dividend anytime soon. Even better, the company will likely continue increasing it on a yearly basis by roughly 4%; last year, it did a much larger 10% increase.

With the recent 11.5% pullback in shares and a yield of nearly 5%, this is a great opportunity to pick up shares of a bank that is operating incredibly efficiently. I'd look to start a position now, and if there is a further pullback, average in to your position.

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