Canadian Imperial Bank of Commerce: Smart Investors Getting Bullish. Should You?

Description

It seems an upward journey has begun for **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) after its fall from grace earlier this year.

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In a slow but steady move, its shares have jumped about 3% to $109.05 in the past month after plunging from the 52-week high of $120 in March.

CIBC shares were being punished for two reasons.

First, many investors believe that the bank has too much exposure to the Canadian housing market, where prices have surged to a dangerous level. Investors got nervous after home sales started to plunge in the nation's largest housing market, Toronto, as the government intervened to cool the market where detached home prices jumped 33% in March.

The problems at the troubled **Home Capital Group Inc.** further weakened interest in CIBC as investors played it safe on concerns that the Canadian banks would also suffer if this hemorrhage at Home Capital didn't stop.

The second factor that worked against CIBC was the company's geographic limitations. Some investors argued that, unlike its peers, which have strong footprints in the U.S., CIBC's retail banking is concentrated only in Canada. With prolonged housing market weakness, CIBC was considered to be the weakest bank among the top five.

I believe investors who deserted CIBC shares have overplayed these concerns. Here is why.

Housing market crash

Doomsday sayers have long been calling the collapse of the Canadian housing market. There's no doubt that some parts of the market are overpriced, but the market is already correcting itself. Prices have fallen almost 16% from their peak in March/April in Toronto. And I believe there's going to be a soft landing rather than a crash because the demand side of this equation remains strong in the nation's largest cities.

In any worst-case scenario, however, CIBC and other top banks are well capitalized to take any hit on their loan portfolios. The majority of housing loans are backed by the Federal Government insurance program anyway, so I don't see a U.S.-style housing collapse here.

On the diversification side, CIBC is catching up fast after its acquisition of Chicago-based PrivateBancorp in June 2016.

CIBC pursued this deal to expand its commercial and private banking business in the U.S. and leverage its wealth management platform in the country. PrivateBancorp, with about US$20.4 billion in assets, serves mostly middle-market companies, business owners, and wealthy families.

Is CIBC a buy?

I think the time is right to add CIBC stock to your income portfolio. Its valuation metrics suggest that CIBC shares are cheap when compared to its peers. Its price-to-earnings multiple is the lowest among its peers. Its dividend yield of 4.72% is the highest among the Big Five banks in Canada.

As the Canadian economy picks up steam, and the Bank of Canada accelerates its interest rate hikes in coming quarters, CIBC is one of the best candidates to benefit from this strength. Higher interest rates bode well for the banking system as they make more margins on their savings products and as credit demand picks up.

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