Why Canadian Imperial Bank of Commerce Remains the Best Bank Stock to Buy

Description

At a price of $112, shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) remain the most attractive of Canada's big banks, as the company pays a dividend of more than 4.5% and trades at slightly more than 10 times earnings. Investors are currently being offered this discount, as the company recently made a large U.S. wealth management acquisition and has yet to report a full year of earnings as a new combined entity.

With that in mind, the incredible catalyst for shares of Canadian Imperial Bank of Commerce may just be the contribution of earnings from this U.S. firm, as revenues and earnings reported by the Canadian bank will be consolidated in Canadian dollars. The opportunity for shareholders will be to see an earnings beat due to a subdued Canadian dollar (or on the strength of the U.S. dollar). Although oil has rallied and pushed the Canadian dollar higher along with it, the long-term forecast for the price of oil (by the majority of analysts) is a lower price per barrel then the current values.

Investors must not forget that a number of very wealthy people in Saudi Arabia who are involved in the world's oil supply were recently arrested and/or are under investigation for corruption. Although this news is not favourable for the political climate, the truth is that it has been good for investors in oil and those holding Canadian dollars.

In comparison to **Bank of Montreal** (TSX:BMO)(NYSE:BMO), shares Canadian Imperial Bank of Commerce have a lower dividend-payout ratio in addition to undertaking a much more aggressive share buyback over the past several years. Although the share count increased by almost 10% over the past fiscal year (due to the acquisition), the company has still managed to increase the dividends paid per share while maintaining a payout ratio of less than 45%. During this time, the company continues to amalgamate the U.S. wealth management firm PrivateBancorp into its operations.

For investors considering shares of competing firm Bank of Montreal, the potential upside is just not as strong. Bank of Montreal has a similar dividend-payout ratio, but it has failed to buy back any shares over the past three quarters. The company, which is much more Canadian focused, pays a dividend yield of no more than 3.75% as shares hover around the 52-week high. Investors seeking a less volatile security with less potential for growth may want to consider this name. The downside, however, will be the lack of earnings growth from the company regardless of how well the Canadian economy performs.

As the country is a developed nation, investors must differentiate between 2% earnings growth and 4% earnings growth (on a net basis). Although many investors do not realize that the difference is any more than 2%, the truth is that over a five-year period, the end result will be substantially different, as the numbers compound. Given these possible outcomes, investors may want to take on a little more risk by investing in shares of Canadian Imperial Bank of Commerce.

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