Dividend Investors: Time to Buy Canadian Imperial Bank of Commerce?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) stock has been catching up fast with other Canadian lenders after remaining under selling pressure for most of this year.

This rebound, however, is not a surprise. Me and my other fellow writers at the Motley Fool Canada have been recommending CIBC stock to dividend investors for many months now.

The reason behind our buy call was simple: there is no sign that CIBC's income is being affected negatively due to its exposure to the Canadian housing sector, and this temporary weakness provides a great opportunity to pick the bank's juicy dividend yield for a long-term investment.

Short sellers on the Canadian housing market targeted CIBC due to the size of its mortgage lending, which is the largest among the top Canadian lenders. It has more uninsured mortgages in Toronto and Vancouver — the nation's two hottest real estate markets — than any other bank.

But the bank's latest earnings show that that scenario is probably a wishful dream by short sellers who are desperate to see a collapse of a large Canadian lender, spurred by a housing crash crisis.

Earnings beat expectations

To the surprise for many, CIBC reported a very strong fourth quarter, as its profit jumped 25%, helped by better-than-expected performance in its U.S. operations. Its provision for credit losses was contained. In fact, its provision for losses was down $6 million in the quarter to $183 million.

CIBC reported net income of $1.16 billion for the three-month period ended October 31, up from $931 million during the same time a year ago. On an adjusted basis, CIBC's profit rose to $2.81 a share, up 8% from $2.60 per share a year ago, beating the $2.59 forecast by analysts surveyed by **Thomson Reuters**.

CIBC's U.S. commercial banking and wealth management unit saw a major jump in profit, with net income surging to $107 million — more than four times the $23 million it reported during the same quarter a year earlier.

That was possible due to a full quarter of strong performance from PrivateBancorp, which CIBC purchased this year for US$5 billion and re-branded it in September as CIBC Bank USA.

"U.S. commercial banking and wealth management continue to exceed our expectations … The former PrivateBancorp showed one of its best quarters ever," CIBC president and chief executive Victor Dodig told analysts on a conference call after the results.

CIBC stock is rebounding

CIBC shares jumped 2.3% on November 30, when the lender announced its fourth-quarter earnings. The gain was the biggest since May 29, as investors turned bullish.

Analysts, including Barclays Plc's John Aiken, expect to see a strong performance by CIBC going forward as the market begins to re-rate the stock and short sellers run to cover their positions.

Trading at $121.20 a share and with a dividend yield of 4.79%, CIBC stock is still the most attractive banking option for income investors. I think CIBC stock is going to outperform going forward, and investors could still take the advantage of this momentum.

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