Is Canadian Imperial Bank of Commerce a Risky Investment?

Description

Investing in the biggest banks in Canada has historically been a smart investment. Banks have such dominant market share that the returns have been quite nice. However, some believe that the banks might be riskier than normal primarily because of the housing market.

With that in mind, should investors be avoiding **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM)? Why am I singling out CIBC in this discussion?

It all boils down to the fact that CIBC has larger exposure to the Canadian mortgage market than do any of its competitors. Whereas the other banks have expanded into the United States and Latin America, by and large, this bank has focused on the Canadian market.

It has indeed hurt the bank to some extent, not because of any negative internal events, but because investors believe there *is* bad news. Consider this: it trades at a PE of 10.52, which is a few multiples below its competitors. Thus, investors are treating this bank like a much riskier investment than the other banks.

Adding fuel to the fire, back in November, Fitch, the credit rating agency, lowered Canadian Imperial's credit rating from neutral to negative. With the fear of a housing bubble, the debt Canadian Imperial holds is obviously risky, right?

I simply don't agree with this …

First off, the delinquency rates are incredibly low. Across the entire mortgage portfolio, delinquency rates are only 0.23%, which is down from 0.26% a year prior and equal to last quarter.

And second, even if there were a housing bubble in Canada, the bulk of the bank's focus is on the Toronto and Vancouver markets, which are even stronger than the other regions. We see plenty of real estate business relocating their operations to Toronto, in particular, because the economy remains strong there. Delinquency rates here for uninsured mortgages are 0.1%, which is absurdly low.

Unfortunately, the fear is real, which can make investing in CIBC very frustrating. However, the company recognizes that frustration and rewards investors for holding its stock. At current share prices, investors are rewarded with a 4.44% yield, which is good for $1.33.

It gets better, however. Management has taken a proactive approach to increasing the dividend. The current dividend is thanks to a $0.03 per share increase announced in its most recent results. Further, these increases go back seven years when the bank first started boosting the dividend.

There's no denying that housing prices have increased significantly; I'd be a fool not to recognize that. However, the numbers simply don't point to any impending doom. Could things change? Of course they could. But if you're paying attention to what CIBC is saying, you should be in a good position to react.

It's easy to be frightened by past events. And while it's important to be aware, be careful not to get pulled into that fear. CIBC certainly carries risk, but I don't believe the risk warrants trading at a discount when compared to its competitors. That's an opportunity that I think you should seize.

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Date
2025/08/20
Date Created
2018/03/28
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