



Should Canadian Imperial Bank of Commerce (TSX:CM) Stock Be on Your Buy List?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) is working hard to diversify its revenue stream, and those efforts might not be fully appreciated by [bank](#) investors today.

Let's take a look at the company to see if it deserves to be in your portfolio.

Strategy shift

CIBC made important acquisitions in the United States last year in an effort to diversify its revenue stream.

The US\$5 billion purchase of Chicago-based PrivateBancorp and its subsidiary The PrivateBank gave CIBC a much-needed commercial and private banking presence south of the border. The final price was significantly higher than the original offer, but the acquisition should be accretive to earnings within three years of the June 2017 closing.

Shortly after closing the PrivateBancorp deal, CIBC announced an agreement to buy Geneva Advisors, a Chicago-based private wealth management firm. The US\$200 million deal closed in September. Geneva Advisors was added to the existing CIBC Atlantic Trust business, which CIBC purchased for US\$210 million in early 2014.

CIBC said the Geneva Advisors deal should be accretive to earnings in fiscal 2019.

CIBC will probably take some time to digest the moves and focus on organic growth in the near term, but the company has indicated additional tuck-in acquisitions could occur, primarily in the wealth management segment.

Risks

CIBC has track a record of big blunders, including billions in writedowns on structured products during the financial crisis.

Today, investors are watching the Canadian housing market to see if that could be the next big hit for the bank. CIBC finished fiscal Q2 2018 with \$203 billion in Canadian residential mortgages and \$21.8 billion in home equity lines of credit.

Based on its size, CIBC has largest housing exposure of the Big Five Canadian banks.

A significant drop in house prices over a short period of time would be negative for the bank and its investors. However, the loan-to-value ratio on the uninsured mortgages runs about 54%, so the housing market would have to plunge before the bank takes a major hit.

Dividends

CIBC's current dividend provides a [yield](#) of 4.5%. The company has a compound annual dividend-growth rate of 6.1% over the past 15 years and has not missed a regular dividend payment since 1868.

Valuation

At the time of writing, CIBC trades for 10.4 times trailing earnings, which is cheaper than the 11-13.5 times investors are willing to pay for its larger Canadian peers.

Should you buy?

CIBC probably comes with higher risk than the other banks, especially if a worst-case scenario evolves with tariffs between Canada and the United States. In the event things really get ugly, there is a possibility we could see a steep rise in Canadian unemployment, which would potentially trigger a housing crash.

That said, if you are of the opinion that Canada and the U.S. will work out a reasonable deal, and that the Canadian housing market will see a soft landing, CIBC looks attractive at the current price. The existing dividend should be very safe, and the U.S. assets help balance out the revenue stream.

I wouldn't back up the truck, but a small investment in CIBC might be worthwhile for a dividend-focused portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)

2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/10/01

Date Created

2018/06/21

Author

aswalker

default watermark

default watermark