



## Canadian Imperial Bank of Commerce (TSX:CM): An Undervalued Dividend-Growth Stock to Build TFSA Retirement Wealth?

### Description

Owning dividend-growth stocks inside a [Tax Free Savings Account](#) (TFSA) can help young investors generate substantial funds for their retirement.

The TFSA is a useful tool, as it protects interest, dividends, and capital gains from being taxed, allowing investors to use the full value of distributions to buy more shares. In addition, when the day comes to cash out and spend the money, any gains in the value of the stocks go right into your pocket.

Which companies are attractive?

Ideally, you want to buy stocks when they are somewhat out of favour, but that still offer solid dividend-growth prospects. Let's take a look at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) to see why it might be an interesting pick today.

### Underappreciated

With a market capitalization of \$52 billion, CIBC is the baby of the Big Five Canadian banks. Due to its size, CIBC is often overlooked by investors who are searching for a bank pick for their portfolios, but the stock can be bought at such a discount to its larger peers that it might be worth owning today.

How cheap is it?

CIBC trades at 10.3 times trailing 12-month earnings compared to more than 13 times for **BMO**, **TD**, and **Royal Bank**.

The market obviously sees something it doesn't like, and that could be the fact that CIBC is heavily reliant on the Canadian housing market. The company finished fiscal Q2 2018 with more than \$220 billion in Canadian residential mortgages and home equity lines of credit (HELOC). Royal Bank, which has a market capitalization of \$147 billion, finished Q2 with a residential mortgage and HELOC portfolio of about \$200 billion, so CIBC's exposure, based on its size, is much greater.

A meltdown in Canadian house prices would certainly hit CIBC harder than its peers, but the company has a strong capital position, and most pundits expect to see the housing market cool at a measured pace. As long as things work out that way, CIBC shouldn't have any trouble.

### **U.S. expansion**

Management is doing a good job of diversifying the revenue stream. The company made a \$5 billion acquisition in the U.S. last year that gives CIBC a solid base in the market and enables the company to extend U.S. banking services to its Canadian clients.

### **Digital innovation**

The company has also been at the forefront of the mobile banking digital revolution. CIBC was the first Canadian bank to launch e-deposits, enabling business clients to scan and deposit cheques.

### **Financials**

CIBC's credit quality remains strong. In addition, the company is generating 12% earnings-per-share growth and remains very profitable with fiscal Q2 return on equity coming in at 17.4%.

### **Dividends**

CIBC held its dividend steady through the Great Recession, even though it had to write down billions in bad bets on subprime loans. This gives investors a sense of how stable the payout should be in the event the bank hits another rough patch. In recent years, the company has raised the payout aggressively and currently offers a [yield](#) of 4.6%.

### **Should you buy?**

CIBC carries more risk than its peers, but the discount appears too wide right now, and the gap should start to close as the company continues to diversify its revenue stream.

If you have some cash available for a TFSA pick, I think CIBC looks attractive today.

### **CATEGORY**

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2. Investing

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