Time to Buy Canadian Imperial Bank of Commerce (TSX:CM) Stock?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is up 10% in the past five months and is getting close to an all-time high.

Let's take a look at the current situation to see if Canada's fifth-largest bank deserves to be in your portfolio today.

Earnings

CIBC reported solid fiscal Q3 2018 results, supported by strong performances across the company's business segments. Adjusted net income increased 20% to $1.4 billion compared to Q3 2017. Adjusted diluted earnings per share rose 11% to $3.08, and adjusted return on equity was relatively flat at 17.1%.

The Canadian personal and small businesses banking operations saw adjusted net income rise 14% to $643 million, driven by improved net interest margins and higher fees.

Canadian commercial banking and wealth management activities enjoyed a 20% jump in reported net income due to higher revenue from deposit and lending growth as well as better spreads in the commercial banking loans.

Capital markets generated $265 million in reported net income, representing a 5% year-over-year improvement. Equity derivatives, foreign exchange, and interest rate trading businesses all saw solid revenue growth.

Finally, the U.S. commercial banking and wealth management operations kicked in adjusted net income of $171 million, representing a jump of $126 million due to a full quarter of results from CIBC Bank USA. The company made a US$5 billion acquisition in the United States last year, setting CIBC up for additional opportunities in the American market.

Dividends

CIBC has a solid track record of dividend growth, and that trend continues. The company just raised the quarterly dividend from $1.33 to $1.36 per share. That's good for a yield of 4.4%.

Valuation

The rally in recent months has wiped out some of the stock's discount, but CIBC still trades at an attractive 10.7 times trailing 12-month earnings. The larger Canadian banks all fetch multiples in the 11-13.5 times range.

Risks

Investors are willing to pay less for CIBC than for the other banks due to its heavy reliance on the Canadian retail operations. CIBC is widely viewed as being the most exposed in the event of a meltdown in the housing market, and its income derived from international operations trails its peers. A crash in home prices would definitely be negative, but a soft landing is likely in the cards as interest rates increase. The company is well capitalized, and CIBC is capable of riding out a modest housing downturn.

CIBC's U.S. acquisition is a good start to diversifying the revenue stream. Management has indicated more deals could be on the way, especially on the wealth management side of the business.

Should you buy?

CIBC's dividend should be very safe, and the company is generating solid results, while working hard to balance out the revenue stream. It's not as cheap as it was a few months ago, but CIBC still looks like an attractive pick at the current price.

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