The Risks and Rewards of Investing in Canadian Imperial Bank of Commerce (TSX:CM)

Description

Canada's big banks have long been considered some of the best long-term holdings to add to nearly any portfolio. There's a good reason for that view too: the big banks, with few exceptions, have posted handsome returns with each passing quarter, have expanded to new markets, both in the U.S. as well as abroad, and all offer appetizing (and growing) dividends.

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Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is neither the largest or most well known of the banks but does offer a few compelling points for investors who are considering adding a bank to their portfolio.

Why consider CIBC?

As I mentioned above, CIBC is by no means the largest of the big banks; in fact, CIBC comes in second to last of the Big Six banks, with a market cap of just over $48 billion.

Part of the reason for that lower valuation stems from CIBC's exposure (and arguably too much exposure) to Canada's mortgage market. In the years following the Great Recession, most of CIBC's peers turned to international markets in the U.S. and elsewhere to fuel strong growth, and for some of those peers, the added exposure to the U.S. market has resulted in a series of phenomenal earnings updates.

That all changed in 2017 when CIBC acquired Chicago-based PrivateBancorp, and that acquisition finally silenced several key concerns from long-time critics. First, there's the diversification aspect. By expanding outside the Canadian market, CIBC finally addressed the issue of being over-extended to Canada's mortgage market. Critics have long viewed that over-reliance as risky, noting that a slowdown in the housing market, such as one brought on by prolonged interest rate hikes, could leave CIBC in a more difficult position over its peers.

Adding to this was the sizable bump in revenue that CIBC realized in the quarters following the acquisition, with the U.S. segment now approaching on 25% of company earnings and is likely to continue growing for the foreseeable future.

Another concern among critics stems from the exposure that CIBC has to the energy sector. In total, as of the most recent quarter, CIBC has nearly $8 billion in drawn exposure to the sector, which, given the volatility in recent months, could be a risk factor for some investors.

Then there's CIBC's dividend. With an impressive yield of 4.96% on offer, CIBC's growing yet stable dividend may be reason enough for some investors to consider investing in the stock, and certainly top of mind for income-seeking investors.

Finally, let's mention the market itself. 2018 finished on a sour note for most investors, with much of the market finishing the year worse than it started. CIBC was no exception, with the stock down over 10% in the trailing 12-month period.

Fortunately, 2019 has panned out better so far, with CIBC already up 7% since the turn of the year, and this is where prospective investors can see an opportunity to what is otherwise an impressive long-term holding.

To put it another way, with its current P/E of 9.36 the bank is an excellent investment option for those investors looking for long-term growth and income prospects.

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dafxentiou

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