



Is Now the Time to Buy Canadian Imperial Bank of Commerce (TSX:CM) and Lock In a 5.5% Yield?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) has performed the worst among Canada's Big Five banks since the start of 2019 with its share price remaining flat compared to the likes of **Toronto-Dominion Bank** and **Royal Bank of Canada**, which have gained 13% and 12%, respectively. This has triggered considerable speculation that now is the time to acquire Canadian Imperial because of its ongoing efforts to expand its U.S. banking business and its regular dividend yielding a very juicy 5.5%.

Unlike the other major banks, Canadian Imperial is highly reliant on Canada to generate earnings growth. This — combined with fears that the credit cycle will worsen as the domestic economy weakens — has caused Canadian Imperial to be targeted by short-sellers; it is the ninth-largest short position on the TSX. Canadian Imperial's dependence on the domestic market remains high, even after spending US\$3.8 billion to acquire Chicago-based PrivateBancorp in 2016 and recently announcing it will buy boutique U.S. boutique investment banking firm Cleary Gull.

By the end of April 2019, the bank was earning 69% of its net income from its Canadian commercial banking and wealth management operations, with another 18% coming from capital markets and the remaining 13% from its U.S. businesses. The bank's credit portfolio is heavily exposed to Canada with 84.5% of all loans originated domestically and a mere 12% in the U.S.

Furthermore, Canadian Imperial is heavily exposed to the domestic housing market, where sales and prices have been softening after a strong near decade of tremendous growth. That doesn't bode well for the bank because it derives a large proportion of its earnings from residential mortgages.

For these reasons, Canadian Imperial is the most vulnerable of the Big Five to an economic downturn, but the outlook is certainly not as poor as the short-sellers believe.

You see, credit quality remains strong with the bank reporting a second-quarter gross impaired loans (GILs) ratio of 0.52%, which, despite being 0.11% greater than a year earlier, is still indicative of a high-quality credit portfolio.

In fact, the sharp increase can be attributed to an impaired loan in the utility sector rather than a decline in the quality of Canadian Imperial's domestic mortgage portfolio, where GILs only moved 0.02% higher year over year to 0.27%. Net write-offs for Canadian consumer loans and delinquencies for personal banking remain low and virtually unchanged compared to a year earlier, further underscoring the health of Canadian Imperial's loan portfolio.

A significant portion of the bank's Canadian mortgages are insured, providing an important backstop should the housing market or economy worsen. Those mortgages that aren't insured have a conservative loan-to-value (LTV) ratio of 54%, providing plenty of room to renegotiate should the operating environment worsen. On top of that solid credit portfolio, Canadian Imperial is well capitalized with a common equity tier one capital ratio of 11.2% at the end of the second quarter.

Foolish takeaway

It is unlikely that the calamity that short-sellers such as [Steve Eisman](#), who picked the U.S. housing market meltdown over a decade ago, will occur as predicted. If anything, Canadian Imperial's domestic growth opportunities will remain muted for the foreseeable future, and this will be offset to some extent by its expanding U.S. presence and earnings.

While I believe that Royal Bank, Toronto-Dominion, and [Bank of Nova Scotia](#) represent better long-term investment opportunities, Canadian Imperial's better-than-expected outlook and sustainable dividend yielding a juicy 5.5% make it an appealing investment.

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