Dividend Investors: Buy Canada’s Best Bank Stock

Description

Canadian Imperial Bank of Commerce (NYSE:CM)(TSX:CM) is a diversified financial institution and provides various financial products and services to personal, business, public sector, and institutional clients in Canada, the United States, and internationally. The company offers bank accounts, mortgages, loans, lines of credit, investment and insurance services, and credit cards.

CIBC also provides services in day-to-day banking, borrowing and credit, investing and wealth, corporate banking, online foreign exchange, asset management and investment banking. CIBC was incorporated in 1867 and is based in Toronto, Canada.

At $110 a share, CIBC’s stock is very cheap. The company has a price-to-earnings ratio of 13.49, price-to-book ratio of 1.29, dividend yield of 5.27%, and market capitalization of $49.56 billion. The company has excellent performance metrics with an operating margin of 34.25% and a return on equity of 9.49%.

CIBC serves clients through four main strategic business units. Personal and business banking provides clients with financial advice, products, and services through banking centres and remote channels. Commercial banking and wealth management provides wealth-management services to middle market companies, small businesses, and entrepreneurs. Capital markets provides integrated global markets products and services, investment banking advisory and execution services, corporate banking solutions and research to clients around the world.

CIBC is the fifth-largest Canadian chartered bank in terms of market capitalization. COVID-19 represented a major shock to CIBC’s principal markets. In Canada, household credit growth slowed, as sharply weaker non-mortgage credit demand offset growth in mortgages. Lower consumer spending had a negative impact on retail transaction volumes. Housing prices remained firm in most markets.

In 2020, CIBC's earnings declined by 27% as a result of the global pandemic. The company earned $8.22 per share in 2020 compared with $11.19 in 2019. CIBC's efficiency ratio was 60.6% compared with 58.3% in 2019 and 57.5% in 2018. CIBC has a common share dividend policy of maintaining a balance between the distribution of profits to shareholders and the need to retain capital for safety and soundness and to support growth of the businesses.

In 2020, the company's return on equity was 10% was below the 15% target and down from 14.5% in 2019 and 16.6% in 2018. CIBC's 2020 dividend-payout ratio was 70.7% compared with 49.9% in 2019 and 45.5% in 2018. At the end of 2020, CIBC's Basel III Common Equity Tier 1 ratio was 12.1%, well above the current OSFI target of 9%. In response to the COVID-19 pandemic, OSFI directed that all federally regulated financial institutions halt share buybacks and dividends until further notice.

In 2020, CIBC's three-month daily average liquidity coverage ratio (LCR) was 145% compared to 125% for 2019. This measures unencumbered high-quality liquid assets that can be converted into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The LCR standard requires that, absent a situation of financial stress, the value of the ratio be no lower than 100%. CIBC comfortably satisfies this requirement.

Based on traditional valuation metrics, such as the price-to-earnings ratio, price-to-book ratio, and dividend yield, CIBC appears to be undervalued and, by far, the cheapest Canadian bank. Investors buying CIBC at these prices are likely to do very well over the long term.

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