



CIBC's Results Are In – Not Great, but Not Bad

Description

To this point, several of **CIBC's** (TSX:CM,NYSE:CM) peers have offered up results that have indicated their domestic retail lending business is in decline. Canadians appear saturated with debt and our housing market seems to be on a well-documented precipice.

Given CIBC is the most exposed of its peers to the domestic environment, a soft quarter wouldn't have been a complete surprise. However, this does not appear to be the case.

The bank's core cash EPS of \$2.12 came in above consensus expectations of \$2.08 and the bank bumped its dividend by \$0.02 per quarter to \$0.96/share. Although year-over-year retail revenue growth of just 2% was at the bottom of the peer range of 0-6%, it wasn't the worst.

The Canadian banking division actually grew its income over last year's results, generating earnings of \$604 million vs. \$556 million in Q2'12. An 8.6% increase. However, earnings from this critical division declined by 1.1% from this year's first quarter. Nevertheless, these figures compare favourably to those banks that have already reported.

On a bit of a side note, CIBC also provided commentary regarding its relationship with **Aimia** ([TSX:AIM](#)), the owner of the Aeroplan points program. CIBC's Aeroplan credit card is hugely popular, and a jewel of a relationship for Aimia, however, the bank indicated it may let this relationship go the way of the dodo the current agreement expires at the end of this year. Today's release included the following:

"CIBC has engaged in periodic renewal discussions with Aimia and is also actively investing in, and building, an alternative travel card offer. At this stage, there can be no assurance that the Aeroplan Agreement will be renewed or replaced and CIBC has started incurring expenditures to plan and build for alternative outcomes."

Aimia shares are off 1.5% on this development.

Foolish Takeaway

With a return on equity (ROE) of 22.3%, CIBC is well above the group average in this important

category. However, its price/book multiple at 2.1 is also at the high-end and reasonably close to the 10-year average of 2.4. ROE is unlikely to improve from here, and given the domestic exposure, it's hard pressed to see how capital appreciation factors into this story for the foreseeable future. A familiar theme amongst the group.

Because of their significant weight in the S&P/TSX Composite Index, a lack of capital appreciation from the banks means the Canadian market could be stalled, making passive Canadian index investors vulnerable to disappointing returns in the coming years.

We have prepared a [Special FREE Report](#) that will clue you into the perils of investing in the Canadian index and suggests an easy to implement alternative strategy. It's called "**5 Stocks That Should Replace Your Canadian Index Fund**" and you can receive a copy at no charge – just by [clicking here](#).

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Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.

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1. Investing

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
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