



Canadian Imperial Bank of Commerce Surprises With Dividend Increase

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) has endured a rough ride recently amid implications that the stock is the weakest among Canada's big banks. But better-than-expected earnings announced February 26, along with a surprise dividend increase, suggest that avoiding CIBC in your financial stock portfolio might be an exaggerated response.

On Thursday the bank reported adjusted income in its fiscal first quarter of \$956 million, or \$2.36 per share, ahead of analysts' predictions of \$2.27 per share. CIBC's quarterly earnings included the earlier sale of half of its Aeroplan credit card portfolio.

The bank also announced a quarterly dividend increase of \$0.03 to \$1.06 per share. The 3% rise came as a surprise, said Barclays analyst John Aiken, as the bank announced a similar increase in its previous quarter. The move boosts CIBC's yield to 4.6%, from 4.5%.

"In the quarter, CIBC's core businesses delivered solid results despite a challenging macroeconomic environment," said Victor Dodig, CIBC's president and chief executive. "Through our client-focused strategy, we continued to deliver consistent and sustainable earnings as a strong performance-oriented relationship bank."

On the negative side, adjusted net income at CIBC's retail and business banking dropped 4% to \$618 million; however, the Aeroplan sale cut \$123 million from the division.

Analysts were generally upbeat about CIBC's results.

"CIBC reported solid results, capped off with a surprise dividend increase in what could be interpreted as a signal from the board that its outlook is nowhere near as negative as what is being priced into CM's shares at present," said Aiken in a note to clients. "The [earnings] beat came from higher trading and better than anticipated provisions for credit losses, which is similar to its peers, which the market has been looking past."

RBC Dominion Securities Darko Mihelic agrees with Aiken's positive assessment. "Adjusted EPS was ahead of our estimate and consensus, credit quality continues to look benign, and CIBC announced a

surprise dividend increase,” he said.

Should you buy?

These earnings have some analysts backtracking on their previous more cautious positions on CIBC, and there’s general agreement the stock will get a short-term bump on the news. Whether CIBC shares will continue to climb remains to be seen, but a positive earnings report will help the bank keep up with its peers and support the argument that CIBC has earned its stripes as a blue chip share well-deserving of a place in your financial stock portfolio.

CATEGORY

1. Bank Stocks

TICKERS GLOBAL

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