Should You Buy, Sell, or Hold Canadian Imperial Bank of Commerce Following its Q1 Earnings Beat?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), the fifth largest bank in Canada in terms of total assets, announced better-than-expected first-quarter earnings on the morning of February 26, and its stock has responded by rising over 3.5%. However, the company's stock still sits more than 10% below its 52-week high, so let's take a closer look at the quarterly results to determine if this could be the start of a sustained rally higher, and if we should consider initiating long-term positions today.

The better-than-expected first-quarter results

Here's a summary of CIBC's first-quarter earnings results compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$2.36	$2.27	$2.31
Revenue	$3.55 billion	$3.41 billion	$3.39 billion

Source: Financial Times

CIBC's adjusted earnings per share increased 2.2% and its adjusted revenue increased 4.8% compared to the first quarter of fiscal 2014. The company's slight earnings per share growth can be attributed to its adjusted net income increasing 0.5% to $956 million, driven by 25.5% growth to $271 million in its Wholesale Banking segment and 6.5% growth to $132 million in its Wealth Management segment. Its strong revenue growth can be attributed to revenues increasing in both of these segments as well, led by 23.3% growth to $619 million in its Wealth Management segment and 3.8% growth to $706 million in its Wholesale Banking segment.

Here's a quick breakdown of eight other important statistics and ratios from the report compared to the year-ago period:

1. Total assets increased 11% to $445.22 billion
2. Total deposits increased 8.1% to $339.88 billion
3. Total net loans and acceptances increased 7.1% to $274.97 billion
4. Total assets under management increased 18.2% to $149.79 billion
5. Net interest margin contracted seven basis points to 1.77%
6. Adjusted efficiency ratio improved 250 basis points to 59.2%
7. Adjusted return on common shareholders' equity contracted 150 basis points to 20.6%
8. Book value per share increased 8% to $45.99

CIBC also announced a 2.9% increase to its quarterly dividend to $1.06 per share for the second quarter, and it will be paid out on April 30 to shareholders of record at the close of business on March 27. This marks the seventh time the company has increased its dividend since 2011, which shows that it is dedicated to maximizing its returns to shareholders.

Should you consider investing in CIBC today?

I think the post-earnings pop in CIBC's stock is only the start of a sustained rally higher, because it still trades at inexpensive valuations and pays a very high dividend.

First, CIBC's stock trades at just 10.4 times fiscal 2015's estimated earnings per share of $9.18, and only 10 times fiscal 2016's estimated earnings per share of $9.59, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 11.4. Also, it trades at a mere 2.08 times its book value per share of $45.99, which is inexpensive compared to its market-to-book value of over 2.3 in the preceding three quarters.

Second, the company now pays an annual dividend of $4.24 per share, which gives its stock a bountiful 4.4% yield at current levels. The company has also increased its dividend seven times in the last four years, so I think this makes it qualify as a value, dividend, and dividend growth play today.

I think CIBC represents a great long-term investment opportunity today. Foolish investors should take a closer look and strongly consider initiating positions in the trading sessions ahead.

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1. Editor's Choice

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Date
2025/09/14
Date Created
2015/03/02
Author
jsolitro

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