



Forget What Bay Street Says: Canadian Imperial Bank of Commerce (TSX:CM) Is Looking Good

Description

RBC Dominion Securities analyst Darko Mihelic wasn't impressed by **Canadian Imperial Bank of Commerce's** ([TSX:CM](#))([NYSE:CM](#)) second-quarter earnings beat, lowering the bank's target price May 24 by \$6 to \$135 a share.

"We continue to assume slower residential mortgage growth of 2% on an annualized basis over our forecast period (in line with CM's mortgage growth guidance)," Mihelic wrote in a note to clients.

"However, our 'back of the envelope' calculations suggest flat residential mortgage balances through Q4/19 could lower our 2019 core EPS estimate somewhere in the neighbourhood of around \$0.17 and the earnings impact is likely understated."

While it's true that CIBC's mortgage business isn't looking nearly as robust as it has in previous years, the same can be said for all the big banks. CEO Victor Dodig knew this day would come, which is why he went out and bought [PrivateBancorp](#) in the U.S. and, more recently, [Wellington Financial](#) here in Canada.

The bank continues to be the most underrated of the big Canadian banks — a big reason why it beats quarterly earnings estimates more than any other of the Big Five.

"Over the past two years, CIBC's smallest earnings-per-share 'beat,' in percentage terms, is 2.7%, and the bank has posted three quarterly numbers that exceeded 10% or more," wrote the *Globe and Mail's* David Milstead May 22. "It hasn't missed in any of the eight quarters. On average, the beats equaled 7.7% over the past eight quarters and 7% over the past four."

In the latest quarter, CIBC delivered adjusted earnings per share of \$3.18 — 12.4% ahead of the consensus EPS estimate of \$2.83 a share.

Investors continue to listen to analysts from firms such as RBC Dominion Securities with no regard for the bigger picture. As long as CIBC remains drastically undervalued in relation to the rest of the banks, I don't see how investors can pass on its stock; I really don't.

The upside

My nemesis at the Fool is Joey Frenette. He and I are either totally on the same page or a universe part. There doesn't seem to be any middle ground. Thankfully, when it comes to CIBC, Joey and I share the same glowing opinion.

"I think the current discount [lower valuation] is unwarranted and could be wiped out in five years' time as the U.S. segment gradually begins to account for more of CIBC's total revenues," Joey [wrote](#) May 22. "Management is determined to grow the U.S. segment such that it accounts for 25% of its total business, a process that will likely require expensive tuck-in acquisitions that may stunt the ROE. However, you really do need to pay for quality, and in terms of the long-term outlook, CIBC looks like a far more robust bank in five years compared to five years ago."

Christina Kramer is CIBC's group head of personal and small business banking for Canada. During the Q2 2018 conference call, the bank executive said that the company's revenue from its mortgage business in fiscal 2017 accounted for two-thirds of the bank's overall revenue. Two quarters into 2018, it now represents about 25% of CIBC's overall revenue, providing a clear picture how its diversification efforts with clients are paying off.

For example, last year, its Canadian commercial banking and wealth management business generated \$886 million in revenue and \$284 million in adjusted net income. In Q2 2018, those two numbers were \$937 million and \$310 million, respectively. That's year-over-year growth of 5.8% for revenue and 9.2% for adjusted net income.

Its U.S. commercial banking and wealth management business generated \$102 million in revenue and \$27 million in adjusted net income in Q2 2017. In Q2 2018, those two numbers were \$414 million and \$142 million, respectively. That's year-over-year growth of 305.9% for revenue and 425.9% for adjusted net income.

Yes, most of that is the addition of PrivateBancorp, but now its U.S. commercial banking and wealth management business accounts for 30.6% of the total — up from 10.3% a year earlier.

Add CIBC Bank USA to the mix, and the U.S. accounts for 16% of the bank's overall revenue — and growing.

The bottom line on CIBC stock

Forget what Bay Street says; CIBC is looking good. Its stock is a bargain, and it has the best dividend of the Big Five.

The smart play is CIBC by a country mile.

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