Should Income Seekers Buy CIBC (TSX:CM) After its Earnings Strike Out and Dividend Hike?

Description

CIBC (TSX:CM)(NYSE:CM) clocked in a rare, major profit miss to investors on Thursday. For the first quarter, the bank saw profits decline 11% year over year to $1.18 billion, triggering a nasty 2.7% single-day sell-off in shares that have already been pulverized following the sub-par Q4 numbers.

The abysmal Q1 results were driven lower thanks a big part to CIBC's capital markets business, which suffered a massive 38% year-over-year decline to its earnings. Adjusted earnings per share clocked in at $3.01, down from the $3.18 recorded over the same period last year and missed analyst expectations of $3.08.

There was no sugar-coating those disgusting numbers in Q1, as the higher-than-expected loan losses proved to be a tough pill to swallow for investors, especially for those who were already fearful over the bank's domestic overexposure and its massive exposure to Canada's fragile housing market.

For now, it appears that the CIBC pessimists were right, but despite two straight quarters of disappointment, I see the light at the end of the tunnel for the perennially cheap bank stock that is CIBC.

Although investors were quick to ditch CIBC stock on the Q1 results, the U.S. businesses (both commercial banking and wealth management) appeared to show promise, but not enough to make up for the horrific capital markets and Canadian personal banking businesses.

It was a dark quarter, no doubt. But despite this, management encouraged investors to look on the bright side. The bank's long-term thesis is still very much intact, and despite the weak macro environment (common to all Canadian banks), which will continue to be a drag on near-term results, CIBC went on to hike its dividend by a respectable amount.

“While we were met with some challenges this quarter, including a volatile market and isolated loan impairments, our core business continued to perform very well and in line with our strategy,” said Victor Dodig, CIBC CEO.

Dodig and company are still very much on the right track from a long-term viewpoint, but investors weren’t biting on Dodig’s positive notes. While it may seem that CIBC is a dud of an investment like it was during the Financial Crisis, I’d urge investors to remember that all the big banks are entering a particularly nasty storm in the first half of 2019.

In a prior piece, I’d warned investors that the macro picture was paving the way for a disappointing 2019 for the big banks. I also encouraged investors to sell their banks for utilities until the banks had pulled back to levels closer to the December lows.

Indeed, Q1 was a disaster for many big banks like CIBC that aren’t used to big earnings misses. Over the long term, I believe the recent pullback is buyable. However, investors may want to nibble away at the banks gradually on the way down as I don’t expect any Canadian banks will be making major upside moves anytime soon.

If you’re keen on scoring a big dividend for your RRSP, you have my blessing to buy CIBC, but make sure you’ve got cash to buy more on a further pullback.

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