



Could This Be the Most Underrated Bank Stock on the TSX?

Description

When you evaluate Canadian banks from a risk perspective, you can conclude that most of them are strongly managed. Although bank stocks are generally safe investments, prices are driven by the actual performance of the individual banks. A case in point is the **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

The bank has been under harsh scrutiny lately due to sluggish earnings growth. However, it couldn't be stricken outright from the list of good investment options because of the stock's rotund 5.0%+ dividend yield. But strictly speaking, there are three finer points other than the attractive dividend to pick CIBC for long-term growth.

Increasing top line and bottom line

Market observers see the reliance on Canadian housing loan as the most detrimental issue against CIBC. This main source of revenue is perilous unless management improves the business mix. But based on the bank's financial highlights, the overall performance isn't that unfavourable.

Since 2016, CIBC's top and bottom lines have been improving year after year. The reported revenue from three years' ago was \$15.0 billion, followed by \$16.3 billion in 2017. Last year, it grew by 9.2% to \$17.8 billion. The bank's net income exhibited a similar pattern. The 9.33% growth in 2017 climbed to 12.76% in 2018.

Aggressive expansion in the U.S. market

It's true that some investors are disconcerted by CIBC's exposure to Canada's residential mortgage and accompanying defaults. But the aggressive expansion in the U.S. is in full swing. The 46% income contribution of the Personal and Small Business Segment in Canada might soon dwindle as the U.S. business swells in 2019.

The contribution of the U.S. Commercial Banking and Wealth Management business segment rose to

11% in 2018. The volume was practically negligible until the well-timed acquisition of Privatebank in Chicago, U.S.A. last 2017.

Price appreciation in the cards

Sometime in early January, analysts were predicting the magic level to be \$105. Should the price break that resistance level, it should be clear sailing to \$110. The forecast came true as the stock even skyrocketed to \$114.73 towards the close of February. A downward trend prevailed in March and sunk the price to \$105.

But the seasonal strength seems to have started again this April. Analysts are offering new price targets between the range of \$124 and \$135. Clearly, management's resolve to expeditiously alter the business mix is being recognized. CIBC's near-term earnings are expected to be quite healthy moving forward.

Thus, if you have a long-term investment horizon and would take into account the current prognosis, the stock is the right pick. CIBC isn't the only bank prone to spikes and dips. But every price drop is a buying opportunity to own shares of the highest-yielding Canadian bank. Further, each peak is higher than the last.

Why overlook CIBC when the price is almost a bargain? The previously weak capital markets will rebound in a flash once the U.S. and China forge a monumental trade deal.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/09/11

Date Created

2019/04/12

Author

cliew

default watermark

default watermark