This Top Bank Stock Offers Good Value Ahead of Earnings

Description

To kick off the month of April I suggested that investors act quickly and scoop up **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock at a discount. Shares had jumped 5% since trading opened on April 1 as of close on May 8. For those who failed to jump on the buy-low opportunity, there is good news; CIBC stock is still trading at great value compared to its peers.

CIBC is set to release its second-quarter results for fiscal 2019 before markets open on May 22. In my other bank earnings previews, I've discussed how market turbulence contributed to a lukewarm earnings season in the first quarter. CIBC suffered from this same issue in Q1 2019.

The bank reported adjusted net income of $1.363 billion in the first quarter, which was down 5% from the prior year and flat compared to the fourth quarter of 2018. As expected, CIBC's Capital Markets segment dragged on earnings. Net income in Capital Markets plunged 38% from the prior year to $201 million, which was primarily due to lower revenue from its equity derivatives and interest rate trading businesses. It also suffered from lower equity and debt underwriting activity and lower investment portfolio gains.

Domestic and global stock market conditions have improved markedly in 2019 so far. The **S&P/TSX Composite Index** had climbed 14.5% in 2019 as of close on May 8. Further, major U.S. indexes have all approached or exceeded all-time highs.

CIBC's U.S. Commercial Banking and Wealth Management segment was a bright spot, reflecting a trend across earnings at the big Canadian banks. Adjusted net income in this segment climbed 24% from the prior year to $174 million, primarily due to strong revenue growth. U.S. economic growth was robust in the first quarter of 2019, and Canadian banks should continue to benefit from positive conditions south of the border ahead of the next batch of earnings.

Canadian Personal and Small Business Banking posted adjusted net income of $632 million in Q1 2019, which was down 4% from the prior year. Improved margins and volume growth were offset by a higher provision for credit losses and lower fees. The Canadian economy suffered a retreat in the month of February as the resource sector continued to struggle. Growth is expected to improve in the latter half of the year, but it is almost certain it will come in below an annual rate of 2%.

CIBC has been a star in the housing sector compared to its peers over the past decade, but this reputation was shattered in recent quarters. Top competitors like **Royal Bank** outpaced its mortgage book growth. Fortunately, conditions have improved. The CMHC upgraded the broader market to “moderately vulnerable” in early May. There are positive signs that the federal government will move to give housing a booster shot going forward.

This brings us back to CIBC’s value ahead of its Q2 earnings release. The stock was trading at the middle of it 52-week range as of close on May 8. Its forward P/E of 9 makes it an attractive target relative to its peers right now. The stock had an RSI of 53 as of this writing, putting it in neutral territory in early May.

CIBC is especially attractive for value investors on the hunt for income. The stock offers a quarterly dividend of $1.40 per share, which represents a 5% yield.

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