



Is Canadian Imperial Bank of Commerce (TSX:CM) Stock Attractive Today?

Description

Canadian Imperial Bank of Commerce's ([TSX:CM](#))([NYSE:CM](#)) stock price has taken a hit this week, after what has proven to be a rough quarter for the bank and a rough week for its stock, which is down 5% in the last 10 days and down more than 15% from 2018 highs.

So, the stock is now trading at levels that are approaching December 2018 lows. With this, we have to ask ourselves if now is a good time to add the stock, and if not, when?

CIBC stock has hit a dividend yield of 5.4% today off of stock price weakness after a quarterly result that was below expectations and fraught with warning signs.

I talked about these concerns in my note last week, reviewing [what we should expect](#) when the [Canadian banks](#) report, and it seems that, for CIBC at least, my concerns are coming to fruition.

Here are the three hits the company is absorbing as the Canadian banking environment worsens.

Loan growth slowing

Loan growth in the Canadian personal and small business banking segment was pretty much non-existent, as loan balances continued to decline.

Loan growth (excluding wealth) was 2% in the quarter, down from a 2.6% growth rate last year, as mortgage and real estate secured loans experienced a sharper pullback than management had expected, especially in large urban markets.

Provisions for credit losses (PCLs) higher

CIBC's PCLs were 27 basis points in the second quarter, up three basis points versus the prior year, as higher impaired loans in most business segments reflected the increasingly difficult lending environment.

After a 2018 ratio of 23 basis points, PCLs will rise to over 30 basis points in 2020.

Efficiency ratio deterioration

Just as a reminder, the efficiency ratio is calculated as expenses (excluding interest) divided by revenue. It measures a bank's ability to turn its assets into revenue, and so the lower the ratio, the better.

In the second quarter, CIBC reported an efficiency ratio of 56.1% — a 170-basis-point increase versus last quarter and a 20-basis-point increase versus last year. Higher spending on strategic initiatives that are expected to drive future growth was the reason for this, such as spending on digital banking.

For full year 2019, management expects the efficiency ratio to be higher than previously expected, as this increased strategic spending will be ongoing.

Final thoughts

As we can see here, CIBC was definitely hit by higher-than-average exposure to Canada, but at least we can see that the bank's U.S. segment (10% of revenue) is performing well, with 18% loan growth and 13% deposit growth.

With a dividend yield of 5.4% and an attractive valuation, CIBC stock is attractive today and should be on your radar.

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