CIBC (TSX:CM) Drops the Ball on Earnings: Should You Drop the Stock?

Description

What a disgusting quarter for one of Canada's least-loved bank stocks.

Don't look now, but **CIBC** (TSX:CM)(NYSE:CM) is on a streak for quarterly misses, as the bank slightly fell short of analyst expectations once again, inspiring unforgiving investors to ditch the stock to the curb, which sent shares down a whopping 4.4% in a single trading session.

While the earnings miss was slight (adjusted cash EPS of $2.97 versus consensus expectations of $2.98), the provision for credit losses (PCLs) jumped 20% year over year together with management's higher guidance for expenses has many investors wondering if short-sellers, like *The Big Short's* David Eisman, were right.

Moving forward, less loan growth and more spending is expected, and with ugly macro headwinds likely to continue wreaking havoc on the broader industry, it's tough to find a bull case for CIBC over the near term. While CIBC's performance has been abysmal, it's important to remember that the broader basket of banks is slated to underperform over the next year or so, as I noted in a prior piece.

Yes, CIBC dropped the ball and will probably end up the biggest loser of the Big Six banks this quarter, but the Q2 results weren't 100% gloomy.

The U.S. business looked very strong once again, posting earnings that were up 36% on a year-over-year basis. Unlike on this side of the border, U.S.-based expenses were well managed and PCLs weren't ripping.

As CIBC continues to bolster its U.S. foundation, I expect the long-term story to improve. But in the meantime, it's all about those hideous domestic results, as the U.S. business isn't yet large enough to offset a meaningful portion of the meagre Canadian results. As CIBC pursues further U.S. tuck-in acquisitions, this will change, but in the meantime, investors expect nothing but doom and gloom with the Canadian business, which is suffering from below-average loan growth.

Were the short-sellers right?

I don’t think so. CIBC isn’t a ticking timebomb like some shorts believe. Yes, PCLs and jumping expenses are cringe-worthy, but as the bank continues to transform itself for the next generation, long-term investors have a lot to gain by going against the grain.

CIBC’s U.S. business is snowballing, and with a mobile app that’s one of the best rated in Canada with one of Forrester’s top overall scores for functionality and user experience last year. Investors don’t seem to care about these positives though, as all focus is on the short’s doomsday theses and the bank’s losing streak.

If you’re one to endure short-term pain for long-term gain, there’s a fat dividend (yielding 5.3%), that’s yours to keep. CIBC could very well fall back to $100 in the near term, and once it does, it’s time to pounce on the name in spite of the dire circumstances that are already exaggerated to the downside.

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