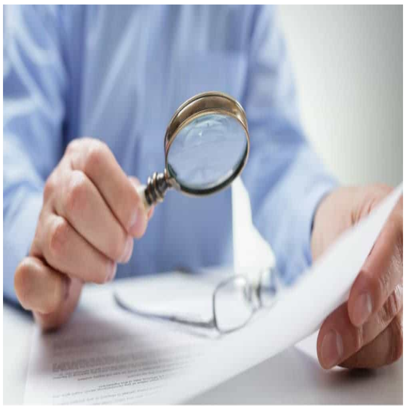


Why You Should Avoid CIBC (TSX:CM) Stock

Description

Over the past couple of weeks, Canada's Big Five have reported second-quarter results. Unfortunately, all but **Toronto-Dominion Bank** missed earnings estimates. Yesterday, I explained why TD Bank is still Canada's best. Today, I'll make the argument as to why **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is Canada's worst.

To be clear, just because CIBC's stock is inferior to its peers does not make it a bad stock. It is just substandard when compared against the other Big Five banks. As a whole, the entire sector has been beaten up of late, and they all provide excellent value.

Why does Canadian Imperial Bank of Commerce come up short? Let's take a look.

Second-quarter earnings

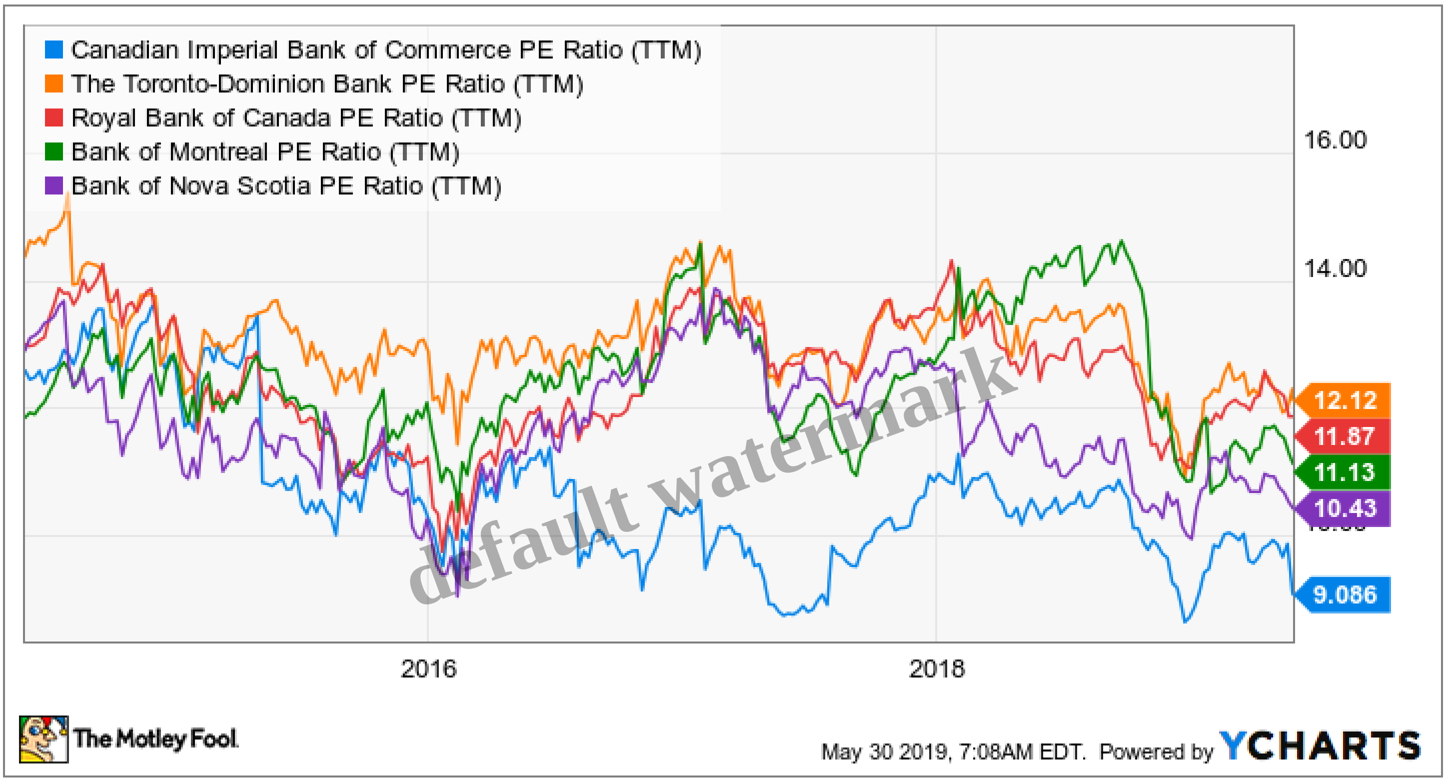
Let's start with the most recent news. Second-quarter earnings of $2.97 per share missed by a penny, and revenue of $4.54 billion beat by $10 million. When compared against estimates, this isn't a terrible performance. The disappointment comes when compared against second-quarter results of 2018.

Revenue grew by 3.7% over the previous year — the smallest growth rate among its peer group. It is less than half that of the second-lowest growth rate of 7.6% posted by the **Bank of Montreal**. Likewise, CIBC's earnings per share inched up by only 1% over the same quarter of last year. This, once again, was well below the group average.

CIBC has a growth problem. This is not surprising, as the majority of earnings come from Canada. Although it has made recent efforts to diversify outside its home country, its peers are years ahead in terms of geographical diversification. This is also reflected in analysts' estimates, which expect annual earnings growth of 4.45% over the next five years. This is the lowest rate and 160 basis points below **Royal Bank of Canada**, which has the second-lowest rate (6.05%).

Valuation

At first glance, Canadian Imperial Bank of Commerce is one of the cheapest banks. It has the lowest price-to-earnings (P/E) ratio (9.09), the lowest forward P/E (7.88), and it is trading at only 1.33 times book value. The problem, however, is that CIBC is trading at a discount for a reason: lower expected growth rates. This has been the case for years, and is the main reason for which the bank has consistently traded at a discount (see five-year YChart below).



All of Canada's Big Five are trading at discounts to their historical averages, but CIBC stock is the most expensive stock when taking into account expected growth rates. This can be measured via the P/E-to-growth ratio. At a peer high of two, the company's stock is already getting ahead of future growth rates.

Foolish takeaway

The devil is in the details. Although Canadian Imperial Bank of Commerce stock looks attractive, the company's low growth rates are holding it back. The company is the most exposed to a slowing Canadian economy and high consumer credit.

It is for this reason that investors are best to put their money in any of the other Big Five. They all have higher expected growth rates and are all attractively valued.

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