



Should You Be Buying Canadian Imperial Bank of Commerce (TSX:CM) on the Dip?

Description

Shares in Canada's highest yielding bank, **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) fell sharply last week following disappointing second-quarter results.

Yet a recent report that came out of the Bank of Canada suggested that Canada's financial system "remains resilient" and that while there are "vulnerabilities associated with high household debt and imbalances in the housing market" that "confidence in [the] resiliency of Canada's financial systems remains high."

So, the question that remains now is this: should you be buying the latest dip in CM stock?

To begin with, the fact that CM's share price sank 4.5% the day earnings were released, followed by another 3.5% the next day may be making things appear worse than they actually are.

Earnings were still 1% higher in the second quarter at CIBC compared to the year-ago period and were flat over the first quarter compared to three months ago.

So that's not really all that terrible, but what makes things look worse for the bank's shareholders these days is that some of its closest rivals are performing decidedly better.

Both **Royal Bank of Canada** and **Toronto-Dominion Bank** are coming fresh off their own second-quarter earnings releases that saw both banks report considerably stronger earnings than did CIBC, with both Royal and TD generating bottom line gains that approached double-digits in percentage terms, a far cry from CIBC's second quarter stagnation.

The other interesting thing to note when evaluating the latest results is that CIBC saw much higher losses owing to provisions for future losses from its credit book than did either of TD or Royal.

Now, that could just be the bank's managers taking a more conservative approach to booking losses well in advance of them actually taking place.

If that indeed turns out to be the case, then you could certainly make a strong argument that following last week's relative underperformance, now is a great time to be buying heavily into the company's shares.

But what if it isn't the case?

There's no way of knowing for sure at this point but I would – and am – wondering whether CIBC's [latest earnings report](#) may be foreshadowing something that could be even more damning.

After all, CIBC is far from being the biggest fish in the sea of Canadian financial institutions, and because of that, the bank won't always find itself in the strongest position when it comes to competing for loans against the likes of larger foes like TD and Royal.

Because of the size and scale advantage that both TD and Royal hold over CIBC, this naturally gives them access to cheaper sources of capital, a cost saving they can inevitably choose to pass on to customers when competing for business.

CIBC therefore finds itself in a position where it needs to take on more risk in order to be able to compete.

That typically comes in the form of more aggressive (riskier) underwriting either in terms of the interest it can afford to charge against its loan book, or, in certain cases, dealing with clients of a lower credit quality.

Either way, it tends to result in a riskier book of business.

When things are going well, it may not make a whole lot of difference, but if credit conditions start to take a turn for the worse, the bank's managers may find that the piper is coming to get paid.

Foolish bottom line

For long-term minded investors, I still think CM shares are offering the [best dividend](#) among any of the Big Five Canadian banks.

But if you're finding yourself more concerned about the prospect of capital gains returns over the next 12 months or so, I'd be apt to pay for quality over value, and in this respect, I happen to like both RY and TD stock relative to that of CM at the present time.

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Date

2025/09/08

Date Created

2019/06/02

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