Canadian Imperial Bank of Commerce (TSX:CM): Too Cheap to Ignore

Description

Canada's banks are still attracting considerable negative interest from U.S. hedge funds and traders with many of the Big Five banks making up the top ten most shorted stocks on the TSX.

One that is not attracting as much negative attention, albeit has proven unpopular with investors is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) despite the bank having a juicy 5.7% dividend yield — the highest of the Big Five.

Declining growth

The unpopularity of Canadian Imperial stems from its considerable dependency on Canada and the domestic housing market for earnings growth, coupled with lacklustre results.

Looming fears of a recession despite lower U.S. interest rates and a slowing housing market are magnifying concerns over the outlook for Canadian Imperial.

These indicate that the consistent earnings growth reported by Canada's Big Banks could have come to an end, which is evident from Canadian Imperial's second quarter 2019 results.

Net income grew by a modest 2% year over year to $1.3 billion, while its return on equity (ROE), a key measure of performance, dropped by 1.2% to 15.8%

This less than pleasing performance occurred despite Canadian Imperial investing heavily in recent years to expand its operations into the U.S. through its US$5 billion acquisition of Chicago-based **PrivateBankCorp**.

In fact, results for Canadian Imperial's U.S. operations for the second quarter were mixed, even with the nation experiencing solid economic growth.

Reported net earnings fell by 3% quarter over quarter to $163 million, although this was 18% higher than the equivalent period a year earlier. The solid year-over-year growth can be attributed to increased loans and deposits.

Nonetheless, the performance of Canadian Imperial's U.S. business is likely to decline over the remainder of 2019 and into 2020. This is because of increasingly choppy financial markets, fears of a looming recession, lower headline interest rate after the Fed's latest rate cut, which will squeeze its net-interest-margin (NIM), and increasing impaired loans.

Those factors will weigh on growth and profitability, while indicating that Canadian Imperial's July 2019 announcement of its intent to purchase Milwaukee-based boutique investment banking firm Cleary Gull is poorly timed.

Impaired loans in the U.S. rose sharply in value during the second quarter increasing by 38% year over year to $18 million, for the reasons discussed that trend will likely continue.

Bank-wide gross impaired loans expanded by 3% to $908 million in another worrying trend, which will likely continue as the Canadian housing market continues to soften and domestic wage growth remains stagnant.

Those emerging threats are also weighing on the outlook for Canadian Imperial's capital markets business which reported a strong second quarter with the 12% year over year increase in net income being driven by increased trading activity.

Foolish takeaway

While choppy markets and fears of a recession have investors worried, buying quality dividend paying stock over the long-term is still one of the most widely recognized means of creating wealth and achieving investing success.

The latest decline in Canadian Imperial's value with it down by 18% over the last year sees it trading with some attractive valuation metrics including a price of eight-times projected earnings and 1.3 times its book value.

While Canadian Imperial may not be the best-performing of the big five banks or possess the most growth potential, it is now too cheap to ignore, particularly when its juicy 5.7% dividend yield is considered.

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mattdsmith