Why CIBC (TSX:CM) Stock Could Be Headed to $130 After its “Relief” Quarter

Description

Investors were biting their nails going into the third-quarter earnings of **CIBC** (TSX:CM)(NYSE:CM). Steve Eisman and various other short-sellers have been setting the stage for a catastrophe, but when CIBC finally pulled the curtain on its third-quarter earnings, shares soared on the better-than-feared results, as I predicted in prior pieces.

A day later, Donald Trump’s ominous tweets wiped out a majority of the post-earnings gains, and given CIBC’s positive quarter, I’d say now is as good a time as any to back up the truck on what could be Canada’s most undervalued bank stock.

A better-than-feared quarter could send CIBC stock on a sustained rally higher

After suffering earnings miss after earnings miss, it was a breath of fresh air when CIBC bucked the trend with a slight bottom-line beat that was driven by a remarkably strong performance from the U.S. business. While the third-quarter results were far from stellar, there were many positives, which suggest that a majority of the bank’s pains may already be in the rear-view mirror.

Adjusted EPS came in at $3.10, up 1% year over year, beating analyst expectations of $3.06. Adjusted revenues were up a modest 4%, but so too were expenses, resulting in muted profitability for the quarter.

Slightly higher quarter-over-quarter NIMs helped CIBC in the third quarter, but given the likelihood of rate cuts moving forward (management acknowledged the headwind of potential rate cuts), such NIM improvements should be viewed as a temporary.

As expected, earnings growth was sluggish, but the real positive was the fact that provisions weren't skyrocketing, and credit costs showed signs of stabilizing. Loans to companies within oil, gas, and agriculture were a major sore spot for the quarter, but they were more than forgivable given investors were fearing much worse.

The book of residential mortgages didn't look horrific either, which is another good sign, as CIBC continues on the path of flat growth.

While Trump-fuelled market pessimism is likely to keep CIBC stock depressed in the meantime, I think the stock will bounce off the $100 mark once investors forget about the fresh slate of bad news that President Trump served up on Friday.

CIBC posted a mediocre result which was more than enough to impress investors who were worried that rapidly accelerating provisions would send shares into a further tailspin. As investors are given more time to digest the results, I think that CIBC will be marked as investable again by those who bought into the overly bearish theses of Steve Eisman and other short-sellers.

Dividend raise? Yes, please!

Management was confident and its trajectory moving forward, and it proved it by raising its dividend by 6%. CIBC now sports a dividend yield of 5.8%, close to the highest it's ever been in recent memory, making it a more attractive bet for income-oriented investors.

Was the quarter a green light?

I think so. CIBC will continue slogging along, and as the bank makes an effort to cap expenses while dealing with further provisions, I believe the stock could surprise many over the next year. Add the promising U.S. business into the equation, and CIBC is starting to look like an absolute steal at 8.1 times forward earnings.

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