Is Now the Time to Buy Canadian Imperial Bank of Commerce (TSX:CM)?

Description

Canada's big banks continue to be battered by a raft of bad news. The ongoing trade war between the U.S. and China, a no-deal Brexit, and fears of a recession are weighing on the global economic outlook. Domestically, they are also being negatively affected by a softer housing market, weaker exports, and reduced investment in building construction.

These factors along with U.S. hedge funds claims that the credit cycle will worsen, sees the big banks making up the five most shorted stocks on the TSX, with **Royal Bank of Canada**, which is the most domestically focused of the Big Five, attracting the most short interest. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), one of the most domestically focused of the Big Five, is the fourth most shorted stock. After losing 11% over the last year, which is the worst performance of the Big Five, there is growing speculation that Canadian Imperial is too cheap to ignore, making now the time to buy.

Credible results

Canadian Imperial's third-quarter 2019 results were mixed with adjusted diluted earnings per share of $3.10 being relatively flat compared to $3.08 for the equivalent period a year earlier. That can be blamed on weak revenue growth, which only rose by 4% year over year to $4.7 billion and a 4% increase in non-interest expenses. While Canadian Imperial's adjusted return on equity declined by 1.5% compared to a year earlier to 15.6%, this is still a solid number and indicates that the bank can deliver value for shareholders, even in the current difficult operating environment.

Canadian Imperial continues to maintain a high-quality credit portfolio, reporting a bank-wide gross impaired loans ratio of 0.45% for the third quarter, which — while 0.01% higher than a year earlier — was 0.07% lower than the prior quarter. This can be attributed to an 8% year-over-year increase in gross impaired loans to $1.8 billion, but this was an impressive 12% lower the previous quarter, indicating that the credit cycle has started improving.

There are indeed signs that the credit cycle in Canada will continue to improve because of better-than-expected economic data reported by Statistics Canada, which showed that household spending and business investment were accelerating.

Canadian Imperial has also been diversifying is business by making acquisitions in the U.S., thereby reducing its dependence on the Canadian financial services market to drive growth. In 2017, it completed the US$5 billion purchase of Chicago-based PrivateBancorp and recently expanded its U.S. footprint by purchasing boutique investment banking firm Cleary Gull.

By expanding its U.S. operations Canadian Imperial has enhanced its ability to benefit from stronger U.S. growth while reducing its dependence on Canadian mortgage lending to drive earnings growth. Net income from the bank's U.S. operations has been growing at a steady clip. For the third quarter, it expanded by 6% year over year to $172 million and represents 13% of Canadian Imperial's total net income.

Foolish takeaway

While headwinds abound for Canada's major banks, Canadian Imperial is too cheap to ignore. It is trading at 1.4 times its book value and just under nine times projected earnings, making one of the cheapest of the Big Five. Patient investors will be rewarded by its sustainable dividend, which is currently yielding a juicy 5% — the highest yield among its Big Five peers.

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