Canadian Investors: This #5 Bank Just Surpassed #1!

Description

When it comes to banks, **Royal Bank** and **TD** have been locked in a decade-long battle for the title of Canada's largest bank. As the saying goes, You shouldn't judge a book by its cover," just as you also shouldn't judge a bank by its size.

After all, if size was an assurance of a bank's performance, then Lehman Brothers would still be around. This stock is a top five Canadian bank with year-to-date share price growth of 8.40% compared to 1.80% for Royal Bank.

The company I'm referring to is **CIBC** (TSX:CM)(NYSE:CM), and there are several reasons why it has fared better than Royal Bank this year.

An interpretation of the numbers

For the nine months ended July 31, 2019, the company reports strong asset growth with an additional $46 billion added since its fiscal 2018 year-end. This is mainly offset by an increase in liabilities of $43 billion, but an additional $3 billion was added to shareholders' equity, a good sign for investors.

Its revenues are virtually stagnant from $13.4 billion during this period in 2018 compared to $13.8 billion in 2019. This is caused by an increase in interest income (from loans, securities and deposits with other banks) that's offset by an increased interest expense. By comparison, CIBC reported interest income margin of 58.9% in 2018 compared to 50.2% in 2019.

The company's cash flow statement continues to remain strong with increasing operating income year over year. It also reported a positive cash flow from financing of $400 million (up from -$223 million in the prior year) due to the lack of redemption/repurchase/maturity of subordinated indebtedness, a cash outflow of $619 million in 2018.

But wait, there's more

Looking at the company's financials indicate a couple of important items.

First, the company increased its expected credit loss (ECL) allowance from $1.744 billion to $1.890 billion, which is money set aside by the company for possible default events over the expected life of the financial instrument.

Investors may be wondering whether it's a concern, as it indicates that CIBC expects higher defaults in the future. The short answer is no.

The increase is not significant enough to warrant concern, but investors should keep an eye on the ECL on future financial statements, as unexpected increases can indicate tumultuous times ahead.

On a more positive note, CIBC received approval to rectify a normal course issuer bid (NCIB), giving it the ability to purchase and cancel shares on the **TSX**.

No common shares have been purchased during the most recent quarter but investors should keep an eye on share repurchases as it indicates management believes the share price is undervalued.

Foolish takeaway

CIBC proves that a company doesn't have to be the biggestto deliver decent returns to its investors. With a share price that has increased 8.40% to date, investors should look into buying shares to benefit from capital gains.

The company's financials are solid with a growth in assets and cash flow that's offset by a stagnating revenue and lower interest income margin.

That said, the company's ECL shouldn't worry investors at the moment, but going forward investors need to monitor this number for spikes which could indicate a weakening economy.

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Date
2025/08/15
Date Created
2019/11/01
Author
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