



Buy Canadian Imperial Bank of Commerce (TSX:CM) Today

Description

Canada's Big Five banks are still attracting considerable negative attention, despite the increased optimism surrounding the economy and outlook for stocks.

All of the Big Five banks are among the 10 most shorted banks on the **TSX**, with Toronto-Dominion Bank currently the most shorted. One bank that lacks the diversification and overseas exposure of its Big Five peers is **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

This increased reliance upon the domestic market makes the bank the most vulnerable of the Big five, seeing it roughly handled by the market and losing 1% over the last year despite its peers all making modest gains. That sees it trading at a very attractive valuation, making now the time to buy.

A growing U.S. presence

In recent years, Canadian Imperial has worked hard to catch up with its peers by expanding its presence outside of Canada. This saw the \$3.8 billion acquisition of Chicago based PrivateBancorp in 2016 and the acquisition of boutique investment banking firm Cleary Gull earlier this year.

That bolstered Canadian Imperial's operations and deal-making capacity in the U.S., thereby bolstering its ability to benefit from stronger U.S. growth while reducing its dependence on the domestic lending market.

This is important because Trump's 2017 tax cuts and the Fed's latest [interest rate cut](#) have given the U.S. economy a solid boost, leading to an uptick in corporate deal making and greater demand for credit.

Growth opportunities in Canada, however, are muted because of a cooler housing market leading to lower demand for credit, weak wage growth and heavily indebted households.

Poor results

Canadian Imperial reported some mixed fourth-quarter 2019 results, indicating that it's not performing as strongly as many of its peers. It missed on earnings, falling short of the analyst consensus by 7%, reporting earnings per share (EPS) of \$2.84.

That can be attributed to weaker market conditions that saw revenue decline and provisions for credit losses rise. While the financial performance of Canadian Imperial's U.S. business remained flat, a positive development was that provisions for impaired loans were almost a third of that they had been a year earlier.

Canadian Imperial is one of the least profitable of the Big Five, as highlighted by its return on equity (ROE), a key measure of profitability. Canadian Imperial reported an adjusted fourth quarter ROE of 14.2%, which was 2.2% lower than a year earlier.

The bank's efficiency ratio, which indicates how effectively it is using its resources to generate revenue, rose by 1.3% year over year to 59.5%.

The lower the ratio the better, with a ratio of around 50% considered optimal. A high ratio demonstrates that Canadian Imperial isn't effectively generating income from its existing resources, which can be attributed to a softer housing market and weaker demand for credit domestically.

Tighter prudential regulations have also impacted the performance of Canada's banks. While credit quality deteriorated, as illustrated by Canadian Imperial's gross impaired loan (GIL) ratio rising by 0.06% year over year, it was still a very modest 0.47%, indicating that the quality of its loan portfolio remains high.

Foolish takeaway

Canadian Imperial's latest results were poor and indicate that the bank is struggling to perform amid a difficult operating environment.

Nonetheless, credit quality remains high, the bank is well capitalized, and its performance will improve as the economy picks up as we enter 2020.

When those factors are considered in conjunction with Canadian Imperial's very attractive valuation, underscored by a price of just over one-times book value and nine-times forward earnings, it's too cheap to ignore.

Canadian Imperial's considerable appeal as an investment is enhanced by its sustainable dividend, which is yielding a very juicy 5.3%, the highest of any of the Big Five banks. For these reasons, now is the time to buy Canadian Imperial.

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