Why the Canadian Imperial Bank of Canada (TSX:CM) Stock Price Fell 6.4% in December

Description

December was a rough month for the Canadian banks. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:SM) fell 6.4% in a month where even the leading Canadian banks such as TD Bank got whacked.

Clearly, the growing pressure on the Canadian banks' fundamentally bullish investment case is taking its toll. Let's explore this in more detail in order to decide what course of action to take, if any.

Fourth-quarter results show vulnerabilities

CIBC Bank reported fourth-quarter and year-end 2019 results in December, and these results disappointed the market pretty significantly. EPS was $2.84 compared to expectations of $3.06, a more than 7% miss.

A more than 5% drop in CIBC stock price followed on the day of the report, and the stock ended the month down 6.4%.

A sharp rise in provisions for credit losses (PCL) and slowing loan growth were the two biggest weaknesses in the fourth quarter and the reasons for the disappointment.

Loan loss provisions continued to rise, which has taken a toll on the bank's results and obviously, on CIBC's stock price. The provision was $402 million, up 38% compared to the prior quarter and up 52% compared to the prior year. We can expect this rising trend to continue into 2020.

Slowing loan growth is another trend that's hitting the bank and another trend that we can expect to linger into 2020. CIBC's management has stated that the slowdown in mortgage and real estate loans was more dramatic than they had expected and that we should expect the environment to remain challenging.

Relative to other Canadian banks, CIBC continues to have the largest exposure to the increasingly difficult Canadian economy and to personal/mortgage lending. Although its U.S. acquisition, PrivateBancorp is delivering strong results, this concentration in Canada remains an issue for the CIBC stock price.

CIBC continues to trade at a discount to its peers

CIBC stock trades at a pretty significant discount to its peers. To be more precise, CIBC trades at a 9.6 times earnings multiple compared to multiples of over 11 times for many of the other Canadian banks.

This valuation discrepancy can be explained by looking at CIBC's history and by looking at the bank's lack of diversification today. The positive side of this valuation is that it means that we get a higher dividend yield of 5.36% with CIBC Bank stock.

Foolish final thoughts

CIBC Bank stock price fell in December due to problems that are showing up at all Canadian banks. CIBC is feeling it more acutely, however, because of its Canadian concentration, as only 10% of its revenue comes from its U.S. acquisition.

All banks are experiencing multiple contraction at this difficult time. I would take advantage of this stock price weakness in Canadian banks by adding the leading banks, such as TD Bank, on weakness.

Finally, I would like to remind foolish investors of our belief in having a long-term outlook and holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth.

Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony and our quest for financial freedom can be fulfilled.

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