



Why Canadian Imperial Bank's (TSX:CM) Stock Popped After Q3 Earnings and Q4 Dividends Announcement

Description

Shares of the **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) inched up by 2.6% on Thursday morning after it [announced](#) its third-quarter earnings as well as fourth-quarter dividends. In the quarter ended in July 2020, the bank's adjusted earnings fell by 12.6% year-over-year (YoY) to \$2.71 per share. On the positive side, it was significantly better as compared to Bay Street analysts' consensus estimates of \$2.15 per share.

Why CM stock popped on Tuesday on TSX

Despite a notable decline in Canadian Imperial Bank's income from its banking and wealth management operations, solid gains in its capital markets result boosted investors' confidence. It could be the main reason why CM stock rallied after its Q3 earnings event.

Also, the Canadian Imperial Bank announced its fourth-quarter dividends of \$1.46 per share on August 27. It was slightly better than its dividend of \$1.44 per share in the same quarter of the previous year. A rise in the bank's quarterly dividend amid COVID-19 uncertainties seemingly cheered its investors — driving its stock higher.

Canadian banking industry's earnings

By comparison, the **S&P/TSX Composite Index** was trading with 0.4% losses for the day at 12:15 PM ET on Thursday. At the same time, its competitor and the largest Canadian bank **Royal Bank of Canada's** ([TSX:RY](#))([NYSE:RY](#)) stock was up by 0.5%.

Royal Bank of Canada — that announced its Q3 results yesterday — also managed to beat analysts' earnings estimates by a wide margin. Following its Q3 earnings beat, RBC's stock settled with 1.5% gains on Wednesday.

In many ways, the earnings of both the Canadian banks were quite similar. First, the Q3 results of the

Royal Bank of Canada, as well as the Canadian Imperial Bank, were primarily driven by their capital markets segment. Second, COVID-19 related headwinds swelled the expenses and hurt the core banking operations of both the banks.

Key highlights of the Canadian Imperial Bank's Q3 results

In the third quarter of fiscal 2020, Canadian Imperial Bank's total revenue remained nearly flat at \$4.7 billion, with a minor decline of 0.5% YoY. Here are some of the segment-wise key highlights from its latest earnings:

- CIBC's net profit from its Canadian personal and business banking saw a major drop of 23% YoY to \$508 million.
- The bank's profits from the Canadian commercial banking and wealth management segment fell by nearly 7% YoY in the last quarter.
- Canadian Imperial Bank's commercial banking and wealth management operations declined sharply by 64% YoY in Q3 to just \$62 million.
- In contrast, its capital market segment showcased major strength as the bank's income from this segment rose by 67% YoY to \$392 million.

COVID-19 related headwinds

Canadian Imperial Bank's management attributed significant drops in personal and business banking, commercial banking, and wealth management to COVID-19 related headwinds. Also, the pandemic affected the bank's credit quality as its provision for credit losses rose by a whopping 80% YoY during the third quarter.

Is its stock worth buying?

Yesterday [in my article, I highlighted](#) why I would avoid the Royal Bank of Canada's stock despite its Q3 earnings beat. I believe RBC's as well as Canadian Imperial Bank's high dependency on a single business segment — the capital markets segment — temporarily increases the risk to their overall business.

Also, slowing economy with no sharp near-term recovery in sight, I would avoid Canadian Imperial Bank stock as well.

Nonetheless, investors looking for regular income may consider including the Canadian Imperial Bank in their stock portfolio as it currently offers a handsome 5.7% dividend yield. It's even higher as compared to the Royal Bank of Canada's dividend yield of 4.3% at the moment.

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