



3 Takeaways From CIBC's Latest Results

Description

The smallest of Canada's big five banks, **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)), released its second-quarter results recently. As the last of the major banks to report, its performance is best described as respectable, but with a few caveats.

Compared to the same period a year earlier, revenue was basically flat at \$3.2 billion, adjusted net income grew a modest 3% to \$887 million, and adjusted diluted earnings per share rose 4%, up \$0.08 to \$2.17 per share. The bank maintained its leading return on equity, at just over 20% for the quarter.

As you may have noticed, the word "adjusted" appears several times in the above paragraph. So, let's take a closer look at what went on during the quarter, and what it means for investors.

Caribbean disaster

There were many "adjustments", or unusual events during the quarter, that hurt reported results, shrinking net income by \$581 million and reducing earnings per share by over 65%. The biggest issue relates to the bank's presence in the Caribbean.

Canadian Imperial Bank of Commerce owns just over 90% of FirstCaribbean International Bank, one of the largest banks in the English- and Dutch-speaking Caribbean, with 3,400 staff and 69 branches. Unfortunately, things aren't going very well in the region — tourism remains down due to the 2008-2009 financial crisis, impacting many aspects of the economy.

The bank took a charge of \$543 million related to FirstCaribbean. It's important to point out that apart from the \$420 million non-cash goodwill impairment charge recognizing the reduced value of its acquisition, it also took a charge of \$123 million related to loan losses at its Caribbean bank. The bank called the Caribbean situation very challenging. This may not be the last charge the bank takes against earnings as a result of FirstCaribbean.

Dividend surprise

For the second quarter in a row, the bank raised its dividend. At current levels, its annual dividend of

\$4.00 equates to a dividend yield of 4.1%, placing it atop Canada's big five banks.

Though the second raise in as many quarters surprised many, the bank's payout ratio is forecast to remain well within its 40%-50% target.

An interest in non-interest income

An interesting dimension to the bank's financial performance that receives less attention is its balance between interest and non-interest revenue.

During the most recent quarter, non-interest revenue represented just 43% of total revenue — the smallest percentage among the large banks. Compare that to **Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)), where 58% of revenue comes from non-interest segments of the business like investments, insurance, trading, and underwriting.

As consumer lending slows and Canadians reduce their appetite for going further into debt, Canadian Imperial Bank of Commerce's relative dependence on revenue from loans and mortgages may create a significant headwind to earnings growth over the next few years.

CATEGORY

1. Investing

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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