Should You Buy CIBC (TSX:CM) Stock Today?

Description

The market rally in 2019 has taken many TSX Index stocks to new record highs, and that is making it harder to find deals, but opportunities are still available.

Let's take a look at **CIBC** (TSX:CM)(NYSE:CM) to see if it deserves to be on your buy list right now.

CIBC

CIBC just reported fiscal Q2 results that missed analyst expectations. The company generated adjusted earnings of $2.97 per share compared to the $2.99 expected by the market.

That's not a big miss, but it is the second straight quarter the company's number have disappointed, and this has investors wondering if the bank and its peers are facing stronger headwinds than might have been anticipated.

Provisions for credit losses increased by $43 million, or 20%, to $255 million due to higher provisions in the Canadian operations.

On a year-over-year basis, the numbers were pretty much flat. In fiscal Q2 2018, CIBC earned $2.95 per share. The U.S. division posted the best results. Adjusted net income increased 24% to $176 million, supported by improved revenue and a stronger U.S. dollar.

Adjusted return on equity came in at 15.9% compared to 17.4% in the same quarter last year. The company's CET1 ratio, which measures the bank's ability to weather a crisis, remained 11.2%.

Risks

CIBC has made good progress in diversifying its revenue stream through the acquisition of assets in the United States. That said, the company still relies heavily on the Canadian housing market.

So far, the government's efforts to cool off steep price appreciation in overheated markets, while avoiding a crash, have worked. The decision in recent months to halt interest rate increases should help ensure a soft landing for the Canadian residential housing sector, as long as unemployment remains low.

If the economy rolls over and rising job losses trigger a wave of mortgage defaults, CIBC would likely be at risk of taking a bigger hit than its larger peers. This isn't how pundits anticipate things will go, but it is important to keep in mind when evaluating the stock.

Dividends

CIBC increased its quarterly dividend earlier this year from $1.36 to $1.40 per share. That's good for a 5% yield.

The payout hike suggests management is comfortable with the revenue and earnings outlook over the medium term.

Should you buy?

The results weren't great, but not a disaster. CIBC is well capitalized, overall employment levels in Canada and the U.S. are strong, and CIBC's dividend should be rock solid. The stock already trades at a discount to the bigger Canadian banks, and any additional downside probably puts the stock in an oversold position.

If you have a buy-and-hold strategy, CIBC might be an interesting contrarian pick on further weakness. The stock appears cheap right now and you get paid well to wait for sentiment to improve.

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