Is CIBC (TSX:CM) Stock Oversold?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) might be the best deal going right now for investors who are searching for a high-yield stock that has long-term upside potential.

U.S. expansion

Canada's fifth-largest bank has made good progress in its efforts to diversify revenue through recent acquisitions in the United States. The company just announced the purchase of a boutique investment bank, Cleary Gull. This follows the 2017 purchase of PrivateBancorp for US$5 billion.

Additional deals should be on the way, as CIBC seeks to expand its presence south of the border, giving Canadian clients better access to the American market. The U.S. business also provides a revenue balance to the Canadian operations that have relied heavily on the robust housing market in the wake of the Great Recession.

Housing risk

One knock against CIBC is that its large residential Canadian mortgage portfolio puts it at risk in the event the housing market goes into a severe downturn. The concern isn't without merit. CIBC reported lower-than-expected earnings in fiscal Q2 2019, and the bank indicated part of the issue was due to weaker housing markets in Vancouver and Toronto.

Slowing mortgage sales are one thing. The bigger risk is a meltdown in house prices triggered by rising interest rates or a jump in unemployment. These two scenarios would potentially force waves of highly leveraged homeowners to default on their payments.

With the Bank of Canada now on hold and the U.S. Federal Reserve expected to begin cutting rates, bond yields have fallen significantly, which has led to a pullback in mortgage rates. This should boost home sales, as more people can afford to enter the market. At the same time, existing homeownerscan renew at better rates.

On the employment front, the Canadian economy remains in decent shape, and unemployment is at its lowest level in decades. Trade tensions between the United States and China have pundits concerned that a global recession could be on the way. That would be negative, but things would have to get pretty bad before CIBC's mortgage portfolio takes a material hit.

Should you buy?

CIBC is very profitable, has adequate capital to ride out a downturn, and continues to raise the dividend. The stock price is down to the point where the bank appears oversold, and investors can pick up a solid 5.4% yield while they wait for sentiment to improve.

If you have some cash sitting on the sidelines and want a high-yield stock with strong upside potential for your portfolio, CIBC deserves to be on your radar.

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Date
2025/10/01
Date Created
2019/07/29
Author
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