



Should You Buy Canadian Imperial Bank of Commerce (TSX:CM) Stock in 2020?

Description

The past decade hasn't been kind to **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)). Between subprime mortgage problems in the financial crisis and sluggish growth in more recent years, the bank has been one of the worst-performing among the Big Six.

Over the past five years, CIBC stock is up a trifling 10.5%. Meanwhile, the S&P/TSX Capped Financials Sub-Index is up 27% over the same period.

This underperformance has led many investors to shy away from CIBC stock. However, the bank's unpopularity has given it one of the highest dividend yields among its peers, while its long-term earnings growth hasn't been particularly bad. These two factors may make CIBC a solid contrarian buy for 2020. Before exploring that, we need to look at why some investors are so against this stock.

Domestic economic concerns

One of the biggest reasons why CIBC stock has been getting hit hard lately is because of its exposure to domestic mortgages and consumer credit. Hedge fund managers like Steve Eisman have shorted CIBC and other banks, citing these factors. Canadian consumer debt levels are extremely high and getting higher by the day.

The Financial Post recently reported that Canadians' credit card debt had reached a dizzying \$100 billion, and many are reporting that they don't expect to ever pay off their debts.

Additionally, [housing affordability](#) is at an all-time low. Investors like Prem Watsa have stated that Canada's housing market is overheated, and that the big banks couldn't absorb a 50% decline in house prices. CIBC's exposure to consumer debt and mortgages is extremely high, which is a major reason why some hedge funds are shorting its stock.

A presence in the U.S.

Having discussed the bear thesis for CIBC, it's time to move on to some good news.

The first thing to note is that CIBC [has a presence in the U.S.](#), consisting mainly of a commercial banking division. This business isn't huge, but it does provide a certain measure of geographic diversification. CIBC's U.S. wealth management business grew slightly in Q4, and overall U.S.-originated net income grew from \$172 million to \$180 million, despite a revenue decline.

Dividend and yield

Another positive thing to note about CIBC is that its dividend yield is very high.

At 5.29%, it's among the highest of all Big Six bank stocks, and this is a group of stocks that's generally known for high yields. With \$100,000 a year invested in CIBC shares, you'd get \$5,290 a year in dividend income.

However, this is not a stock that I'd expect a lot of dividend growth from. While CIBC's earnings are growing over the long term, they're not exactly soaring. Earlier this year, CIBC's management raised the stock's dividend by 2.9%, and I think that's about what investors should expect from this stock going forward.

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