Canadians: 1 Bank Stock That Will Supercharge Your TFSA

Description

Towards the end of 2019, I'd ranked my top five Canadian bank stocks ahead of the new year. Canada's banks put together a solid 2019. This should come as no surprise, as the S&P/TSX Composite Index climbed to record highs last year. The financial sector makes up the largest weighting on the TSX.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) was my top bank in late November. At the time, CIBC stock was trading near its 52-week high. However, I'd picked CIBC because of its still-favourable price-to-earnings (P/E) ratio and its beefy dividend. Shares have floundered over the past three months as of close on January 15, but I still like the stock, as investors await its first-quarter fiscal 2020 earnings.

The Tax-Free Savings Account (TFSA) has become the favoured registered account over the past decade. This should not come as a surprise, as the account offers enticing flexibility and the chance to rack up tax-free gains. Domestic and international markets had one of the best decades in the modern era in the 2010s, so savvy investors could have potentially raked in a tax-free fortune.

Why CIBC stock is perfect for a TFSA

CIBC stock has not delivered the kind of explosive capital growth that will make investors rich overnight, but it does offer tasty income and stability. In the summer of 2019, I'd suggested that investors should pull the trigger on CIBC stock, as it fell into technically oversold territory. It has not sent off any buy signals of late, but that does not mean investors are not getting good value.

Investors can expect to see its first-quarter fiscal 2020 results in late February. Net profit in the fourth quarter of 2019 fell 6% year over year to $1.19 billion. Its adjusted earnings of $2.84 per share also came in below analyst expectations. The bank was forced to eat a $135 million goodwill impairment charge related to the expected sale of its controlling interest in FirstCaribbean International Bank.

Three out of four of CIBC's main segments suffered year-over-year declines in net earnings in 2019. The only exception was its U.S. Commercial Banking and Wealth Management segment, which reported a 22% increase in adjusted net income to $723 million. CIBC has vowed to push to a return to earnings growth in this fiscal year.

In the 2010s, CIBC established itself as a leader among its peers with its mortgage portfolio growth. However, its big bet on Canada's biggest metropolitan areas left it in a bind when the housing market corrected in 2017 and 2018. Fortunately, Canada housing has enjoyed a rebound over the past few quarters. CIBC is making a big push to improve its mortgage growth in 2020. It is aiming for growth in this sector between 4% and 5% this fiscal year.

The case for CIBC stock right now

Shares of CIBC nearly fell into technically oversold territory in the first week of January and had an RSI of 42 at the time of this writing. The stock possesses a P/E ratio of 9.6 and a price-to-book value of 1.3, both of which are favourable levels compared to industry peers. CIBC stock pays a tasty quarterly dividend of $1.44 per share, which represents a 5.3% yield.

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