CAUTION: Is it Too Soon to Buy CIBC (TSX:CM) Stock?

Description

What's gives with **CIBC** (TSX:CM)(NYSE:CM) stock? The perennial underperformer has continued to demonstrate that it deserves to trade at a sizeable discount relative to its Big Six peers. If you're overweight in the Canadian banks, you're probably growing frustrated with how some of them navigated the tumultuous 2019, which gave rise to all the negative things that come with a credit downturn.

Rising provisions (or skyrocketing, in the case of CIBC), hard-to-control expenses, thinning net interest margins (NIMs), sluggish loan growth, restructuring plans, and all the sort have resulted in diminishing returns for bank investors. And although the big banks remain well capitalized, it's going to be tough to make money off bank stocks, unless you can bag a well-prepared bank at a bargain-basement price.

And at these levels, CIBC seems to meet the latter trait with a stock that's the cheapest it's been in a while as well as a dividend that's the highest it's been since coming out of the Great Recession (a time CIBC got caught with its pants down).

At the time of writing, CIBC sports a 5.4% dividend yield and a 9.6 times trailing earnings multiple (8.9 times next year's expected earnings). Headwinds continue to mount, and provisions have seemed to get the better of the number five bank, which seems destined for more of the same in 2020.

While the stock looks cheap, I think it could get even cheaper over the months again. The Canadian banks aren't out of the woods yet, and given the alarming rate of soured loans, CIBC is a play to be avoided for those who seek shelter from the harsh industry headwinds.

Although the symptoms of the credit downturn seem to be decelerating, with some banks, like **National Bank of Canada**, rising head and shoulders above the crowd, the banks aren't out of the woods yet.

The way I see it, Canada's banking scene has run through one part of the hurricane and has reached the calm eye of the storm, with another bout of damaging winds just waiting on the other side of the eyewall. If that is indeed the case, investors would be better off a bank that's proven its resilience amid the downturn (like National Bank) and not CIBC, which could face zero to negative earnings growth over the next year or so.

In any case, I'd demand a cheaper multiple for an at-risk name like CIBC and urge investors to go for quality rather than cheapness at this juncture. In my opinion, it's far too early to be thinking about buying CIBC, as EPS is likely to be in the low to mid single-digit range over the next two to three years at best.

The storm has taken its toll, but it's not over yet!

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joefrenette