CIBC (TSX:CM) Stock Could Plunge in 2020 if the Housing Market Crashes

Description

There is great concern in Canada regarding the impact of the novel coronavirus on the housing market. The 2020 pandemic has frozen what could have been a red-hot season in spring. Home sales were already up last February versus 2018, with the national average home price climbing by 15%.

Since real estate is a lagging indicator, the economic trend in the housing market can only be reflected within three months. Nonetheless, a seismic change could happen due to the bulk of company layoffs. The bank with the biggest mortgage exposure could plunge if the housing market crashes.

An acid test

In the banking sector, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) could be the most affected. Its loan book is dedicated to retails loans, where a large portion of the average debt is mortgages. Notably, there is a higher concentration in unsecured mortgages.

A housing market crash could be painful for the fifth-largest bank in Canada. To have better control of its mortgage portfolio and preserve margins, CIBC took out its broker network and moved mortgage origination in-house. However, outsized exposure to the mortgage remains a major risk for the bank.

Unfortunately, COVID-19 is beyond CIBC's control. The unraveling of the major risk could come if the pandemic stretches for a longer period. There's a greater potential for consumer defaults.

No dividend cut

CIBC knows that the macroeconomic risks, and in particular, those related to the housing market, are beyond its control. But investors should be happy to note that a dividend cut is not forthcoming. According to CIBC's CEO Victor Dodig, the bank has no plans to cut its dividend as a result of the COVID-19 pandemic.

Dodig said, "Our goal is to make sure that those dividends are flowing," For more than 100 years, the bank has never cut its payout to shareholders. He adds that the dividends are incredibly important to investors who invest their money in CIBC. Many rely on the dividend payouts for income.

CIBC wants to reduce investors' anxiety by ensuring there's cash flow at this moment in time. As of this writing, this bank stock is trading at $85.03 per share and the year-to-date loss is 19.88%. The current dividend yield stands at 6.97%.

Navigating the financial turmoil

CIBC views the current pandemic as a very uniquely challenging time. For its CEO, it is the bank's moment of truth. Since 2014, after the changing of the guards at the helm with the appointment of Victor Dodig, CIBC embarked on a series of fresh initiatives.

The prominent moves were improving operating efficiency, the building of the wealth management business and selective expansion in the United States. Over time, CIBC expects the U.S. business to contribute 25% to the bank's overall operations. Also, the in-house mortgage origination is working thus far for CIBC and shareholders.

With perceptive stewardship and the "lower-risk" profile that management is maintaining, the bank can hit new highs again in the aftermath of the pandemic. For now, the sole focus is to help clients and employees navigate the virus-induced financial turmoil.

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