Is 6.5%-Yielding Canadian Imperial Bank of Commerce (TSX:CM) Stock a Buy?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is one of the big Canadian banks that is struggling today. In a way, all the big banks are pretty much in the same boat. Rising provisions for credit losses and the ongoing economic fallout of the coronavirus pandemic loom large.

CIBC stock shows resiliency

CIBC's stock price has fallen 16% year-to-date, having recovered nicely from March lows. It is trading 34% higher than those lows and is currently yielding 6.5%.

The resiliency of the big Canadian banks is very well known. They survived the 2008 economic crisis and went on to thrive for the next 10-plus years. Until this pandemic and shutdown threw them another curve.

We have seen CIBC's resiliency at work. In 2008, at the height of the uncertainty, investors were panicked. They questioned CIBC's ability to remain solvent and they lost sleep if they held the bank's stock in their portfolios.

Today, we have had similar feelings. The outlook is wildly uncertain and this can leave us stressed and frozen. I caution investors not to fall into this trap. Canadian banks are well capitalized with strong balance sheets and government support. In the 2008 crisis, CIBC stock fell 43% over a period of nine months. This time, due to the instantaneous closure of economies, the stock fell 35% in less than a month.

There are two major differences compared to the 2008 crisis. First, the government is providing a significant amount of stimulus. Second, Canadian banks today are even more prepared to maintain their financial health and liquidity. This is partly due to regulations that were enacted after the 2008 crisis. It's also due to the banks themselves. CIBC is one of the banks that has undergone the greatest transformation since 2008.

CIBC has dramatically reduced the risk of its business

After the 2008 crisis, CIBC made its mission to limit the risk of its business. The years that followed that crisis have been all about risk, risk, risk. More specifically, lowering its risk profile in order to generate more sustainable and less volatile returns for shareholders. So CIBC became a well-capitalized bank that is focused on its Canadian operations. The bank shed its risk-taking past, and starting growing in a prudent, risk-averse manner.

Today, in this new crisis, CIBC is seeing the fruits of its labour so many years ago. While provisions spiked up significantly in the second quarter, the make-up of their loans is different. The risks inherent in the bank’s client portfolio is lower. The provision loss rate will very likely not come anywhere near the 7% to 8% hit in the 2008 crisis.

Foolish final thoughts

The big banks will struggle when the economy is struggling. But we can feel safe to assume that they will make it through difficult times. If this is the case, then it follows that we should buy the banks in these cyclical lows. The best time to buy is when uncertainty is the highest. This is a very difficult reality. When we are most scared to jump in and buy, this is when we get the best deal. With a 6.5% dividend yield, CIBC stock is looking interesting.

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