CIBC (TSX:CM) Stock's Recovery Rally Isn't Over Yet

Description

CIBC (TSX:CM)(NYSE:CM) stock has been picking up traction in recent months, with shares now up a whopping 54% since its March lows. The number five bank of the Big Five has been criticized on numerous occasions in the past for its greater exposure to Canada's frothy housing market, leaving it vulnerable to amplified downside if Canada's housing market were ever to crumble.

As a result, shares of CIBC have historically traded at a considerable discount to its bigger brothers in the space. Following the COVID-19 crisis sell-off, all big banks were thrown into the bargain bin, and CIBC's discount fell unprecedentedly low levels despite demonstrating greater resilience than some of its bigger brothers in the banking scene.

There's still deep value in the Canadian banks

With the Canadian economy on the mend, CIBC and its banking peers still have a lot of room to run, as headwinds and EPS pressures fade. However, it's important to acknowledge the profound magnitude of uncertainty brought forth by the COVID-19 pandemic.

We're not out of the woods yet — at least not until an effective vaccine is available for broad distribution. Another big wave of COVID-19 cases and shutdowns shouldn't yet be ruled out.

If such a bear-case scenario were to happen with the pandemic, there's no question that CIBC and other bank stocks could surrender a big chunk of the gains posted over the past few months, as it's the banks that tend to wind up holding the bag as heavily-impacted small- and mid-sized businesses become unable to meet their debt obligations as a result of the COVID-19 impact.

The banks are still not without their risks. As such, investors should still have a strong preference for Canadian banks such as CIBC, which are in a good position to weather another potential storm without having to bring their dividends to the chopping block.

CIBC: A perennial underperformer no more!

CIBC has been a perennial underperformer compared to its peer group for quite some time. The bank got caught with its pants down during the Great Financial Crisis, and as a result, the mortgage-heavy less-geographically-diversified bank got slapped with a discounted multiple.

As a reputation for folding in the face of crises, CIBC was an underdog going into the COVID-19 crisis. To the surprise of many, the bank actually had its pants on this time around, with decent profitability numbers and some strength in its capital markets business.

I guess you could say CIBC did a pretty good job of weathering the COVID-19 impact following its latest third-quarter results. CIBC suffered an EPS drop (falling 13% year-over-year), but the bottom-line damage was pretty average compared to its Big Five peers.

The bank didn't deliver the worst results of the Big Five and had its pants on for this crisis, unlike the 2007-08 Financial Crisis, during which CIBC got obliterated.

As Canada looks to bounce back in conjunction with the Canadian economy in 2021, I see CIBC roaring much higher. And if it turns out another several waves of COVID-19 are to hit, CIBC looks more than able to hold its own. Amid the COVID-19 crisis, CIBC isn't the most vulnerable bank this time around, with less relative exposure to industries feeling the full impact of COVID-19 such as oil and gas.

Foolish takeaway on CIBC stock

As long as the COVID-19 crisis doesn't implode the Canadian housing market, I view CIBC as a terrific bank to buy amid this pandemic at today's valuations. It's not a bottom-of-the-barrel Big Five bank stock amid this crisis, yet the valuation seems to suggest otherwise.

The stock trades at just 1.3 times book alongside a bountiful 5.6% yield. If you're in the market for a cheap dividend, CIBC ought to be near the top of your shopping list at this critical market crossroads.

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