CIBC (TSX:CM): A Screaming Buy for its Cheap 5.8% Yield?

Description

CIBC (TSX:CM)(NYSE:CM) has a tendency to get caught with its pants down when crises hit. Shares of CIBC struggled to regain ground following the Great Financial Crisis, as they did just under two years before the Dot-Com Bust. Heck, CIBC stock is currently trading close to levels it was before the 2007-08 market crash, meaning you'd only have the dividends to show for your investment if you'd bought at those 2007 peak levels.

With a track record of trailing its peers in rebounds, CIBC stock has traded at a lofty discount to its peer group ever since the Great Recession. That is, until now, with shares currently at 11.7 times trailing earnings, which puts the number five Big Six bank in the middle of the pack as far as valuations are concerned.

Remarkably, CIBC didn't take the biggest hit to the chin this time around. Although shares of CIBC tumbled violently alongside its peer group back in February and March, the stock has been quite quick to recover, now just 9% off its pre-pandemic February highs at $100 and change. The massive dividend yield has compressed down to 5.8%. And to the surprise of many, CIBC is no longer that inferior number five bank that's uninvestable due to its excessive exposure to domestic mortgages and its track record of taking a brunt of the damage in market crashes.

In a prior piece dated January 31, 2019, I'd noted that CIBC was no longer worthy of its hefty discount to the peer group given how much the bank had changed for the better since the depths of the Great Financial Crisis.

CIBC: A premium bank that's proved itself?

"Sure, CIBC will still get smacked hard come the next recession, but don't expect a repeat of 2007-08 because the bank is way more robust than it was back in the mid-2000s." I wrote. "When you look at how banks have improved themselves over the last decade, I think CIBC ought to be at or near the top of the list. Moving forward, I expect [CIBC CEO Victor] Dodig and company to create substantial value for shareholders, and that's with or without recessions thrown into the mix."

Indeed, it's more apparent now that CIBC isn't just an irrecoverable implosion just waiting to happen, and the valuation, I believe, now more than reflects that. Management is doing an impeccable job of navigating this crisis, with solid third-quarter results that saw its common equity tier one ratio improve modestly by 0.5% to 11.8% quarter over quarter. CIBC's exposure to COVID-hit industries (such as oil and gas) is less pronounced than its peers, and it seems as though CIBC is, potentially for the first time in decades, viewed as a more premier Canadian bank.

While CIBC's recent outperformance may have come as a surprise to many, I'm not at all surprised by the bank's resilience, given the managers are far better risk mitigators today than they were over 13 years ago. Sure, CIBC may have dodged several bullets, with less O&G and international exposure versus its Big Six peers, but the fortunate bank is back in the spotlight with investors.

Should you buy the stock and its 5.8%-yielding dividend after its big run off those March lows?

I don't think so. CIBC may be a better bank all around, but the valuation, I believe, is now a tad on the frothy side. Is CIBC a premium bank worthy of a premium price tag? Probably not. In a way, CIBC was lucky to have not had the loan mix as some of its harder-hit peers. I'd say CIBC still deserves to trade at a wide discount relative to the likes of a **TD Bank**. As such, I'd encourage investors to take a raincheck on CIBC, as there are far better opportunities in the space right now, including TD.

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