CIBC (TSX:CM): a Must-Buy for Its Juicy Dividend?

Description

It's never a good idea to bet against the Canadian banks. Back in the depths of March, when headwinds seemed insurmountable, you would have looked foolish (that's a lower-case "f," folks!) to have gone against the grain with anyone of the bank stocks, let alone **CIBC** (TSX:CM)(NYSE:CM), which doesn't exactly have the best track record of holding its own during crises.

During the Financial Crisis, CIBC stock crumbled like a paper bag and took much longer than its bigger brothers in the Big Six to recover. Looking back to the late 1990s, you'll see CM stock losing well over 50% of its value, which took over five years to recover fully from.

With a propensity to fold faster and more viciously than its peers, CIBC stock was slapped with a lofty discount to its peer group and for good reason. CIBC wasn't the best manager of risk, and that's a serious problem once a downturn or crisis hits, some way or another, things always find their way back to the banks. When businesses become unable to meet their debt obligations, it's the banks that could be left holding the bag at the end of the day. That's why risk management and a history of prudence is vital.

A relative outperformer in the Big Six Canadian banking scene

Believe it or not, CIBC actually outperformed many of its bigger brothers during the horrific coronavirus crisis. The stock got rocked initially, but CIBC wasn't the same sub-par risk manager that it was leading up to the 2007-08 meltdown. CIBC was not only far better capitalized this time around, but it also had better risk managers running the show with CEO Vic Dodig. The relative outperformance of CIBC caused shares of CM to bounce back rather quickly, causing the discount on shares to vanish and turn into a slight premium.

Is CIBC stock, a historically neglected Canadian bank, worth a premium after demonstrating its resilience through 2020? I'm not so sure.

While I have noted that CIBC stock was a far more prudent bank this time, it's important to note that CIBC actually came into this pandemic in far better shape than some of its peers, most notably BMO, which felt a brunt of the damage amid the pandemic due to its larger slice of oil and gas (O&G) loans.

Specific areas of the economy felt a greater impact by the COVID-19 crisis, and CIBC was fortunate not to have had a front-row seat to the ailing Albertan oil patch (like BMO did) or other areas that weighed more heavily on some of CIBC's peers.

Had this crisis caused housing to collapse, though, CIBC stock wouldn't have been such a relative outperformer. As such, I don't think investors should pay too much of a premium for CIBC shares today. While CIBC is a far better bank than it was in the past, I just don't see why one would pay up for the name over the likes of a BMO, a more attractive bank that I believe has more room to run over the long haul.

Should you buy CIBC for its 5% yield?

While the dividend is safe and should grow at a solid rate on the other side of this pandemic, I can't say that CIBC is my favourite at these levels. It's a great bank that's finally getting the respect it deserves, but I just don't see CM stock holding its relative premium over names like BMO. If you're keen on CIBC, it may make sense to buy at $110 and change.

I don't see it as the best bank for your buck, though, and would encourage investors to weigh their options as we recover from this crisis.

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