Should You Buy CIBC Stock Now?

Description

The Canadian banks have enjoyed a stellar run to record highs. Is **CIBC** (TSX:CM)(NYSE:CM) stock a buy, or should investors search for other opportunities for the second half of 2021?

CIBC stock price and earnings

CIBC traded for close to $74 per share in March 2020. At the time of writing, the stock is above $140. The shares have not only recovered the pandemic losses; they have also surged above the 2018 high around $124.

CIBC just reported strong fiscal Q2 2021 results. The company generated adjusted net income of $1.67 billion compared to $440 million in the same period last year. Adjusted return on equity came in at 17.3% compared to 4.5% in fiscal Q2 2020.

CIBC is sitting on significant excess capital. It's CET1 ratio at the end of April was 12.4%. That's slightly higher than the 12.3% level from a year ago, when all the banks built up cash to ride out the possible wave of defaults from homeowners and businesses.

A year later, government aid and payment deferrals appear to have worked. CIBC reported just $32 million in provisions for credit losses in the latest quarter compared to $1.38 billion in the same three months last year.

The company could use the cash hoard to grow its business south of the border. CIBC bought businesses in the U.S. in recent years to diversify its revenue stream. Another acquisition in the wealth management segment wouldn't be a surprise.

Risks

Personal and business bankruptcy filings remain at very low levels. The housing market, which CMHC predicted would crash as much as 18%, is as hot as ever with prices soaring as much as 30% in several markets across the country. CIBC's exposure to the housing sector is larger than its peers on a relative basis. The boom in buying and price hikes helped fuel the stellar quarterly results. Wealth management and capital markets activities also enjoyed strong performances.

At the current share price, CIBC looks fairly valued, if not overbought. The housing boom could continue through 2021, while rates remain low and federal aid keeps flowing. At some point in 2022, however, people and businesses will get cut off, and the wave of loan defaults experts anticipated last year might finally arrive. At the same time, inflation fears could put pressure on government bond prices and drive up yields, as markets anticipate interest rate hikes from the Bank of Canada and the U.S. Federal Reserve. The banks use the yields on the five-year rates to determine their rates on fixed-rate mortgages. A sustained spike in inflation will make it tough for the government to keep interest rates low.

If mortgage rates rise too quickly in the next three or four years, people who have to renew at higher borrowing costs could start to default. A large spike in rates could potentially trigger the housing crash that many analysts expected over the past decade but never arrived.

CIBC stock could certainly keep moving higher in the coming months, but the easy profits might be nearing their end.

Should you buy CIBC stock now?

The stock still offers a 4% dividend yield, and investors should see a generous dividend increase as soon as the government allows the banks to restart distribution hikes. If you want a reliable dividend pick to sit on for decades, CIBC should be fine to hold right now.

However, the stock isn't cheap, and headwinds should be expected over the next couple of years. Investors searching for big capital gains through the rest of 2021 and into 2022 might want to look for other opportunities today.

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aswalker