This 1 Banking Stock Crossed All-Time Highs: Time to Buy?

Description

The Canadian banking sector has long had a reputation for being one of the most reliable finance sectors worldwide. Despite the monumental challenges presented by the economic fallout from the pandemic, Canadian banks have enjoyed a stellar run.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) stock's recent bull run saw the stock cross its all-time high before correcting by a slight margin. Considering the overall bullish trend for Canadian banking stocks and CIBC's stellar growth, is CIBC stock worth buying right now, or should you consider waiting for better opportunities later this year?

Prolific growth

CIBC stock was trading for less than $73 per share in March 2020 during the initial panic-fueled selloff market conditions. At writing, the stock is trading for over $140 per share, representing a massive 92% rise in its valuation in 14 months. The stock managed to do more than recover to its pre-pandemic valuation. CIBC climbed to new all-time highs, beating its previously highest mark of $124 per share in 2018.

Operators in the banking sector released quarterly earnings reports for the second quarter of fiscal 2021. CIBC boasted strong figures. The bank's adjusted net income was $1.67 billion — a massive upgrade from $440 million in the same period last year. The company's adjusted return on equity was 17.3% compared to an abysmal 4.5% in the same period last year.

The bank currently holds substantial excess capital. Banks had built up cash to ride out the possible wave of defaults from borrowers due to the pandemic last year, and CIBC's CET1 ratio was 12.3%. At the end of April 2021, CIBC's CET1 ratio was 12.4% — more than what it had saved last year.

The government's efforts to pump stimulus into the economy combined with loan deferrals seemed to pay off. The bank reported $32 million in provisions for credit losses (PCLs) in its latest quarter — a fraction of the $1.38 billion for Q2 2020.

Risks with investing in banks right now

Business and individual bankruptcy filings are at low levels, and the housing market has been nothing short of miraculous in recent years. The Canada Mortgage and Housing Corporation (CMHC) predicted an 18% decline in housing prices due to the pandemic. The supposedly inevitable correction never came. The housing market is actually soaring higher than it ever has.

CIBC has substantially more significant exposure to the Canadian housing market than its peers. The price hikes and boom in buying activities boosted quarterly results for banks like CIBC. It is possible that the housing boom could continue throughout the year, as interest rates remain near all-time lows.

However, inflation fears could force the government bond yields to rise. The government might be unable to keep interest rates low if there is a consistent spike in inflation rates. Rapidly rising mortgage rates could result in a chain of events that could trigger a significant correction in the housing market, affecting CIBC's revenues.

Foolish takeaway

At its current price, CIBC stock offers a juicy 4.15% dividend yield. You can expect to see its dividend payout grow once the government allows the banking sector to restart distribution hikes. If you are looking for a stock that offers wealth growth through capital gains and reliable and increasing dividends, CIBC could be an ideal stock to consider.

However, it might not be a bargain if you are looking for short-term capital gains. Industry headwinds could drive its share prices down over the next year to possibly make it a more attractive buy later.

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