Why CIBC Stock Could Continue to Run Red Hot

Description

Among global banks, Canadian banks continue to be among the most-sought investments from investors globally. And for good reason.

These stocks have proven their mettle as robust and stable long-term plays. Indeed, as far as banks go, Canadian banks are among the best-quality options globally.

In this space, one stock I think warrants a deeper look by investors is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). The lender's recent performance and improved fundamentals make for an intriguing buy thesis with this stock.

So, let's get into it.

Earnings paint a bright picture

Like other large banks, CIBC took an impairment hit during the pandemic. The company's large loan-loss provisions required investors to be patient with this stock. Those who were patient with CIBC, or bought more on the dip, have done very well over this past year.

As the economic landscape continues to improve, CIBC has continued to remove its loan-loss provisions. This has led to rather stellar earnings numbers in recent quarters.

The company's second-quarter results highlight this well. In fact, the company shattered analyst expectations this past quarter, raking in $1.7 billion in earnings, compared to $392 million last year. Adjusted EPS stood at $3.59, beating consensus estimates of $3.00 per share easily. And provisions for loan losses ended the quarter at only $32 million, down from $1.4 billion a year ago.

The fact that the removal of loan-loss provisions contributed so heavily to CIBC’s recent earnings is a good and bad thing. For investors right now, this is a good thing. Near-term outperformance is more important to stock prices in the near term. However, for those looking at investing for a longer time frame, questions remain as to whether CIBC can keep this kind of performance up.

Housing isn’t down … yet

One of the key risk factors with CIBC stock has been the risk of a significant impairment in the Canadian housing sector. Thankfully for CIBC, this hasn’t materialized.

Indeed, CIBC has relatively greater exposure to the Canadian housing landscape than its counterparts. This has actually worked out in favour of CIBC relative to its peers of late. In fact, CIBC stock has outperformed most of its peers in recent years, reversing a trend of underperformance over the longer term.

For bulls on Canadian housing, this is a good thing. CIBC certainly seems like a great investment and is still undervalued on a relative basis compared to its peers.

However, for longer-term investors who like other global markets better, CIBC’s peers may be a better bet. Indeed, CIBC’s status as more of a pure play on Canada can both work for and against the stock, depending on where investors sit at a given point in time.

Bottom line

CIBC is one of those intriguing options today. This bank is heavily leveraged to the Canadian economy and should be viewed as such by investors.

Again, whether CIBC fits in a specific investor’s portfolio depends on how much leverage an investor wants to Canada. Right now, it appears CIBC is in good standing and should perform well. However, over the longer term, this may change.

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