Is CIBC (TSX:CM) a Good Stock to Buy Now?

Description

CIBC (TSX:CM)(NYSE:CM) is up more than 30% this year. Investors who missed the rally are wondering if more gains are on the way for this top bank stock.

Earnings

CIBC reported strong fiscal Q2 2021 results. Canada's fifth-largest bank generated an adjusted net income of $1.67 billion compared to $441 million in the same period last year. Adjusted return on equity came in at 17.3% and CIBC's capital position remains strong with a CET1 ratio of 12.4%.

Provisions for credit losses (PCL) came in at just $32 million in the quarter. That compares to the $1.6 billion the company set aside for potential losses in Q2 2020. The sharp decline shows the positive impact the government's aid programs have had on helping businesses and households get through the worst of the pandemic.

Some of CIBCs peers actually reported net PCL reversals in the most recent quarter.

Outlook

CIBC has a higher relative exposure to the Canadian housing market than the other large Canadian banks. The stock took a big hit at the start of the pandemic as investors feared a meltdown in house prices could be on the way.

Warnings from economists and Canada Mortgage and Housing (CMHC) stoked the fears. CMHC predicted house prices would plunge up to 18% due to the fallout of the pandemic on household income.

Things have actually gone the other way, with home sales and prices soaring over the past year, driven by record-low borrowing rates. CIBC's stock price has been a big winner. The shares are up from around $73 during the market crash lows to a recent closing high of $147 per share. CIBC currently trades near $142.

The hot housing market should continue as long as mortgage rates remain low. Inflation concerns, however, could force the Bank of Canada to raise rates sooner than expected. A meaningful increase would immediately impact variable-rate borrowers and a sell-off in the bond market would likely occur as rates rise, which would drive up bond yields and cause fixed-rate mortgage costs to spike. Once homeowners start renewing at higher rates, the housing market could feel some pressure.

On the other side of the equation, rising interest rates are normally a net benefit for the banks as they boost net interest margins.

Opportunities

Canadian banks are required to maintain a CET1 ratio of at least 9%. This means CIBC is currently sitting on excess capital. The bank will remain cautious for some time until the pandemic threats are clearly in the rearview mirror. However, investors should see a generous dividend increase as soon as the government removes the temporary ban on bank distribution hikes. CIBC’s existing dividend provides a yield of 4.1%.

Share buybacks and acquisitions in the United States could also be on the way. CIBC started buying businesses in the U.S. a few years ago to diversify the revenue stream. That trend could continue now that the company is flush with cash and the Canadian dollar is at a multi-year high against the U.S. dollar.

The bottom line

CIBC stock isn’t cheap right now and there is a risk of a meaningful pullback if interest rates rise shortly after the government ends the pandemic aid programs. With this in mind, investors who like the stock might want to take a half position now to get the decent dividend yield and look to add to the holdings on a dip.

Overall, CIBC remains an attractive pick for a buy-and-hold Tax-Free Savings Account (TFSA) or RRSP portfolio.

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