Should You Buy CIBC Stock Right Now?

Description

CIBC (TSX:CM)(NYSE:CM) has soared off the 2020 lows over the past year and blew threw its pre-pandemic highs. Investors who missed the big rally wonder if more upside is on the way.

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CIBC earnings

CIBC reported solid fiscal Q3 2021 results. The bank generated $1.8 billion in adjusted net income in the quarter, or $3.93 per share, representing a 45% increase over the same period last year. Return on equity was a strong 17.9%, up 500 basis points, and CIBC finished the quarter with a CET1 ratio of 12.3%. This is way above the minimum of 9% required, so CIBC is sitting on significant excess cash that was built to protect against potential defaults caused by the pandemic economic crash.

Government aid programs for businesses and homeowners have helped avoid the worst-case scenario for CIBC and its peers.

CIBC's Canadian and U.S. commercial and wealth operations performed particularly well in the quarter with nearly 19% and 16% revenue growth, respectively, compared to last year and 6% and 3% jumps, respectively, over Q2 2021. Personal and business banking revenue rose 8% compared to Q3 2020. The capital markets group saw net income rise 11% in the quarter, despite a slight revenue dip versus the same period last year.

Growth

CIBC just announced a deal to buy **Costco's** Canadian credit card business, which has more than $3 billion in outstanding balances. The company will also be the exclusive issuer of the Costco **Mastercard** in Canada.

Credit cards can be a lucrative business for the banks with their annual fees and high interest rates.

CIBC could also take advantage of its cash hoard and rising market capitalization to expand its

American business. The company made a series of acquisition south of the border in recent years to diversify the revenue stream and that trend could continue.

Risks

CIBC’s share price fell significantly at the start of the pandemic, as investors feared the bank’s large residential Canadian mortgage exposure would put it at risk of major losses. Fortunately, the government-assistance programs and payment deferrals helped avoid a wave of defaults.

In fact, the plunge in mortgage rates actually triggered a new wave of home buying and another surge in house prices. CIBC’s mortgage loan book jumped by $29 billion from $207 billion in Q3 2020 to $236 billion in Q3 2021.

Some pain could be on the way once the pandemic aid programs end, but CIBC is more than capable of absorbing those hits. The bigger threat is a sharp rise in interest rates. Buyers can get a mortgage at less than 2% right now. That won’t last long if high inflation forces the Bank of Canada to raise rates faster than anticipated.

A jump in mortgage rates by a mere 3% could trigger a selloff in the housing market. Things would have to get pretty bad before CIBC takes a material hit, but investors should keep this in mind when evaluating the stock. CIBC’s housing exposure is high relative to its peers.

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CIBC stock rallied from $74 per share in March 2020 to a recent high above $151. At the time of writing, investors can buy the shares for $145 and get a 4% dividend yield. The current price-to-earnings ratio is about 11.1, putting the stock in the middle range compared to the other large Canadian banks. Historically, CIBC has traded at a bit of a discount due to its higher risk profile.

The overall market is due for a healthy pullback, so I wouldn’t back up the truck right now, but buy-and-hold investors who think the housing market will hold up might want to take a half position and look to add additional CIBC shares on any weakness.

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