CIBC (TSX:CM) Stock: Should You Buy Now?

Description

CIBC (TSX:CM)(NYSE:CM) just reported fiscal Q4 and full-year 2021 earnings results. The stock is down on the news, and investors who missed the big rally in the past year are wondering if CIBC stock is now undervalued and a good buy.

CIBC earnings results

CIBC generated adjusted net income of $1.57 billion in Q4 2021 compared to $1.02 billion in the same period last year. For the full year ended October 31, CIBC saw adjusted net income jump 50% to $6.69 billion.

Personal and small business banking adjusted revenue rose 7% year over year for the quarter to $2.13 billion, and adjusted net income increased 3% to $606 million.

Canadian commercial banking and wealth management revenue rose 21% to $1.24 billion. Net income rose 30% compared to the same quarter in 2020, hitting $442 million.

South of the border, CIBC's U.S. commercial banking and wealth management operations saw revenue increase 14% to US$448 million in the quarter and adjusted net income jumped 91% to US$214 million.

CIBC finished the year with a return on equity (ROE) of 16.7%. That's pretty good when compared to the U.S. banks that average ROE of around 12%. European banks generally deliver ROE in single digits.

CIBC ended Q4 with a CET1 ratio of 12.4%. That's lower than some of its larger peers but still well above the 9% required by the government. The metric is a measure of the bank's capital strength.

Dividends

CIBC continued the streak of large dividend increases from the banks. The government recently lifted a ban on dividend hikes and share buybacks at Canadian financial institutions.

CIBC announced a quarterly payout increase of 15 cents per share to $1.61. The new dividend provides an annualized yield of about 4.7% at the current stock price near $137 per share. CIBC also said it plans to buy back up to 10 million shares, or about 2.2% of the outstanding float.

The stock dipped on the earnings news and is off the 2021 high near $153 per share.

The market might have anticipated a bigger distribution increase. All three of the larger Canadian banks that reported earnings before CIBC raise their payouts by 11-13%.

Risks?

CIBC has a large exposure to the Canadian housing market relative to its size. Interest rates are expected to start climbing in Canada by the middle of next year and could steadily rise until the Bank of Canada sees inflation come down to its target rate of 2%.

A sharp increase in rates over a short period of time could slow down the hot housing market and potentially force some highly leveraged homeowners to sell their properties. A wave of new listings from property investors looking to get out before prices tumble could trigger a correction in the market and cause a snowball effect.

In the event home prices tank and mortgage holders get caught with loans that are higher than the value of the properties, the banks could take a hit, and CIBC is more exposed than its larger peers.

The bottom line

The emergence of the Omicron variant puts the 2022 economic recovery in an uncertain place.

That being said, CIBC’s dividend should be solid, and the stock now trades at reasonable earnings multiple. If you are searching for a buy-and-hold pick for a portfolio focused on income, CIBC remains very profitable and looks attractive at this level.

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