CIBC (TSX:CM) Raises Dividend: Should You Buy the Stock?

Description

CIBC (TSX:CM)(NYSE:CM) just reported fiscal Q2 2022 earnings the fell from the same period last year. Despite the weak quarter, the board still felt comfortable enough with the outlook to give shareholders a dividend increase. Investors who watched the bank's share price fall in recent weeks are now wondering if CIBC stock is undervalued.

CIBC Q2 2022 results

CIBC generated adjusted net income of $1.652 billion in Q2 2022, down 1% from the same period last year but off by 13% from fiscal Q1 2022. Adjusted return on equity was 15.2% in the quarter compared to 17.3% in fiscal Q2 2021. CIBC finished the latest quarter with a CET1 ratio of 11.7%, down from 12.4% a year ago.

The Canadian personal and business banking operations generated reported net income of $496 million in the quarter, down 18% from the same three months in 2021. The hit is due to higher provisions for credit losses and elevated expenses.

CIBC reports its Canadian commercial banking and wealth management units together. The group delivered net income of $480 million in the quarter, up 20% compared to fiscal Q2 2021. Higher fee revenue and better product spreads helped on the commercial banking side while wealth management saw asset balances grow due to net sales gains and market appreciation.

CIBC beefed up its American business in recent years through a series of acquisitions. The U.S. commercial banking and wealth management business didn't fare as well in the quarter compared to its Canadian counterpart. Reported net income slipped US$31 million to US$142 million in the quarter as a result of higher provisions for credit losses and higher expenses.

CIBC's capital markets division delivered a 9% increase in reported net income to $540 million, supported by stronger revenues.

What about red flags?

Provisions for credit losses jumped by $271 million in the quarter to $303 million. The bulk of the hit comes provisions placed against performing loans that are largely due to CIBC's acquisition of a credit card portfolio.

Investors will want to keep an eye on this situation over the coming quarters. Inflation is already putting households under pressure and more weakness in loan portfolios could emerge.

Dividends

CIBC announced an increase in the quarterly dividend from $0.805 per share to $0.83 per share. This comes after a 10% increase late last year.

Should you buy CIBC stock now?

CIBC and its peers face some near-term headwinds. The Bank of Canada and the U.S. Federal Reserve are raising interest rates to battle high inflation. This is driving up borrowing costs for businesses and homeowners. On one side, higher rates enable CIBC to generate better net interest margins, but that might be offset by higher defaults on commercial and residential loans.

CIBC has a large Canadian residential mortgage portfolio, so a major slowdown in the housing market or a crash in house prices would likely hit the bank harder than its peers. This is why CIBC stock often trades at a discount to the other Canadian banks.

Economists are also concerned the aggressive rate hikes will trigger a recession.

That being said, the pullback in the share price likely has these risks already accounted for at this point. Ongoing volatility should be expected, but investors seeking quality passive income might want to buy while the stock is out of favour.

CIBC trades near $69 per share at the time of writing and offers a 4.8% yield. The stock was as high as $83.75 earlier this year.

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