Has CIBC Stock Bottomed Out?

Description

CIBC (TSX:CM) dropped 26% in 2022 and finished the year close to its 12-month low. Contrarian investors seeking high dividend yields and a shot at decent capital gains are wondering if CM stock is now undervalued and good to buy for a retirement portfolio focused on passive income and total returns.

CIBC overview

CIBC has a current market capitalization of roughly $50 billion. This makes the company Canada's fifth-largest bank based on this metric.

The bank has historically traded at a discount to its larger peers. This is partly due to its size, but also as a result of some big blunders that previously hammered investors. CIBC took a big hit during the Great Recession due to bad bets on subprime mortgages. In the wake of the financial crisis, the management team refocused on the Canadian market with a big push in mortgage lending. That strategy proved to be very profitable over the past decade. CIBC also made good progress on diversifying the revenue stream in recent years with acquisitions in the United States focused on commercial banking and wealth management activities.

Risks

The sharp decline in the share price is likely due to investor concerns about the size of the Canadian residential mortgage portfolio. CIBC finished fiscal 2022 with $281 billion in mortgages and home equity lines of credit. This compares with $360 billion at **TD Bank**, but TD has a market capitalization that is more than triple that of CIBC's.

The concern is that a deep and prolonged recession could trigger a wave of job losses and put thousands of property owners with too much debt in a position where they have to default on their payments. Or they could try to sell the homes and condos at prices that are below the amount owed on the properties. In a scenario wherein the housing market crashes, CIBC would likely take a larger hit than its peers.

For the moment, however, the jobs market remains robust and loan losses are in line with expectations. In addition, CIBC says that only $28 billion in mortgages will need to renew in the next 12 months. The average loan-to-value (LTV) ratio on its uninsured mortgages is 48%, so property prices would have to drop considerably before CIBC takes a meaningful hit.

That being said, some pain is likely on the way. CIBC increased its overall provisions for credit losses (PCL) in Canadian personal and commercial banking operations in Q4 2022 to $305 million compared to $200 million in the previous quarter.

Dividends

The board increased the dividend twice in 2022. This would suggest the management team is comfortable with the revenue and earnings outlook in 2023. The new quarterly payout of $0.85 per share provides an annualized yield of 6.1% at the time of writing.

Is CIBC stock a buy?

CIBC’s stock currently trades for close to $55.50 per share compared to more than $83.50 at the 2022 high. At a multiple of just 8.3 times trailing 12-month earnings, the shares now appear oversold considering the widespread expectations for a mild and short recession next year.

Additional downside in the stock is certainly possible in the near term, but contrarian investors might want to start nibbling at this level. You get paid well to wait for the rebound, and CIBC stock is likely close to its bottom in the current cycle.

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