Is CIBC Stock a Buy in February 2023?

Description

CIBC (TSX:CM) had a rough ride in 2022 as the market turned negative on Canadian bank stocks. Contrarian investors with an eye for value and a hunger for high dividend yields are now wondering if this is a good time to buy CIBC stock for their Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolios.

CIBC overview

CIBC is Canada's fifth-largest bank with a current market capitalization near $55 billion. The company has worked hard in recent years to diversify its revenue stream through a series of acquisitions in the United States. The American businesses are expected to help drive targeted earning growth of 7-10% over the medium term.

CIBC generated fiscal 2022 results that came in slightly below 2021. The solid performance in a tough environment and the positive earnings guidance didn't help save the stock from getting hammered through most of last 12 months.

CIBC stock is down 25% at the time of writing from where it traded a year ago, and this is after the strong January bounce.

Risks?

The company is widely considered to be the most exposed of the big Canadian banks to a potential plunge in the Canadian housing market.

CIBC finished fiscal 2022 with $262 billion in Canadian residential mortgages and $19.4 billion in home equity lines of credit (HELOC). **Royal Bank**, for example, which has a market capitalization that is more than triple that of CIBC, finished fiscal 2022 with $361.8 billion in Canadian residential mortgages.

House prices would have to fall considerably for CIBC to take a meaningful hit, but the market is concerned that the aggressive rate hikes from the Bank of Canada over the past year will be too much to handle for a portion of mortgage holders as their payments increase. If the economy slides into a deep recession and unemployment levels surge, a wave of mortgage defaults could send house prices into a much steeper decline than is currently anticipated.

Opportunities

Economists broadly predict a short and mild recession to occur in Canada and the United States in 2023. Businesses and households built up significant savings during the pandemic and this safety net should mitigate the negative impact of the rise in interest rates. A tight jobs market will take time to reverse as well.

Markets are pricing in rate cuts for late 2023 or 2024. If inflation falls enough by the end of the year, the central banks might start to reduce rates again and take pressure off mortgage holders.

In this scenario, CIBC stock appears undervalued at the current multiple of 9.1 times trailing 12-month earnings. This is particularly the case if the company is able to deliver the planned 7-10% earnings growth in fiscal 2023.

Should you buy CIBC stock now?

Ongoing volatility should be expected in the coming months, but contrarian investors with a buy-and-hold strategy might want to start nibbling at the current level. CIBC raised the dividend twice in the past year, so management appears to be comfortable with the revenue and earnings outlook.

Investors who buy CIBC stock today can get a 5.6% dividend yield and look to add to the position on additional weakness.

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