Investors: Just Buy Canadian Imperial Bank of Commerce, Already!

Description

Generally, when it comes to bank stocks, I've advocated a simple rule to help investors choose between Canada's five largest banks.

They should simply buy the cheapest one and wait for market sentiment to blow in their favour. Once that bank becomes expensive, replace it with the current best value. I'm convinced this is the best way for investors to get access to an already stellar asset class.

There are a number of ways to measure a bank's cheapness versus its peers. I believe there's no reason to overcomplicate this exercise; therefore, we can focus on just a few simple valuation metrics.

First on the list would be the stock's normalized price-to-earnings ratio. This is the bank's earnings excluding any special write-offs or one-time gains. Next would be the company's dividend yield. Finally, I'd take a look at the bank's price-to-book value with the lowest ratio winning.

One Canadian bank wins on all these metrics today, and that's **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). It's consistently cheaper than its peers. CIBC currently features a P/E ratio of 9.2, a price-to-book ratio of 1.8, and a dividend yield of 4.7%.

Naysayers argue there are very legitimate reasons CIBC shares are cheap. Do these objections have merit, or do they represent a buying opportunity? Let's take a closer look.

Why is CIBC so cheap?

There are essentially two knocks against CIBC.

The first is the company's geographic coverage. Unlike its peers, who all have a significant portion of earnings coming from outside Canada, CIBC's retail banking operations are essentially all located in Canada.

The company is attempting to correct this. It first agreed to acquire Chicago-based PrivateBancorp in June 2016. Bank shares soared after Donald Trump's election, forcing CIBC to up its bid — twice, in fact. The deal values PrivateBancorp at US$4.9 billion.

There’s just one problem. Pundits accused CIBC of overpaying on the original offer. They’re certainly not happy about raising the price.

While I’m the first to admit the price proposed for PrivateBancorp is a little rich, I urge investors to look at the long term. This will seem like ancient history five years from now when CIBC’s U.S. operations are contributing nicely to the bottom line.

The other reason CIBC shares are cheap is due to the company’s exposure to the Canadian housing bubble. Other banks are insulated from this risk because of their U.S. operations. CIBC isn’t.

The Canadian housing bubble is certainly a risk. The recent **Home Capital** debacle showed investors we don’t even need the market to crash in order to cause real problems for a weaker bank.

But CIBC (and its peers) is well prepared to weather any storm. Yes, it has billions lent out against overpriced Toronto houses. But the majority of those loans are backed by the federal government. It also specialized in prime borrowers, which will minimize defaults when the market starts to turn.

It might not be pretty if the Toronto market collapses in a hurry, but I’m confident CIBC will survive.

The bottom line

There’s plenty not to like about CIBC today. These reasons are why the company is the cheapest of Canada’s major banks.

But investors who ignore this noise will likely be greatly rewarded in the future. It’s happened in the past when certain competitor shares were depressed. There’s no reason to think it won’t happen again.

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