Does Canadian Imperial Bank of Commerce Deserve to Be This Cheap?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has fallen out of favour as the fear levels over questionable practices appear to be moving the stock into deep-value territory. CIBC is the smallest and the cheapest of the Big Five Canadian banks, but I believe the fears surrounding CIBC are overblown and that investors should consider the long-term fundamental improvements the company is making to catch up with its peers in the Canadian banking scene.

Why is CIBC so much cheaper than its peers?

There are many reasons why CIBC trades at a discount relative to its peers, but are these concerns really warranted? Canada's housing market is frothy, there's no question about it. CIBC would take a huge hit on the chin relative to its peers if the housing market were to correct, but investors need to ask themselves what the actual odds are that a violent correction happens in the Canadian housing market. Some pundits believe a mild housing cool down may happen over the course of many years, and if this is the case, then CIBC wouldn't get crushed like many investors fear.

The crisis at **Home Capital Group Inc.** (TSX:HCG) exacerbated the fears over Canada's housing market, and many thought the turmoil could trigger the start of the collapse. I don't believe systematic risk would bring down Canadian banks like CIBC, because we're dealing with apples and oranges here. Although CIBC has a considerable number of uninsured mortgages, it does not deal with subprime clients like Home Capital Group does. In fact, CIBC has a thorough process which greatly cuts down the amount of risk.

CIBC Asset Management recently upped its stake in the alternative lender, which may have rung alarm bells in the ears of investors, but I think this may actually be a terrific deep-value play since shares were ridiculously cheap. Warren Buffett recently stepped in to rescue Home Capital Group from its financial troubles, and it's quite possible that CIBC made a fantastic investment in a struggling company that could turn itself around.

Lack of international exposure problem has been addressed

One of CIBC's weaknesses is the fact the bank is overexposed to the Canadian market, and that it needs to diversify its revenue stream internationally to be more robust. The Canadian market is sensitive to the price of commodities, and let's face it; the U.S. economy offers stability, and it's a huge reason why CIBC's peers have a considerable amount of exposure to our neighbours south of the border.

CIBC knew that it needed to grab some U.S. exposure to be considered a force in the Big Five, and that's why the company sweetened the pot multiple times to take over Chicago-based **PrivateBancorp** (NASDAQ:PVTB) for US$4.9 billion.

Although the deal makes CIBC a more diversified long-term player, the general public was not a fan of the deal because of the steep price which was paid. I believe the price was fair considering the long-term synergies that will be unlocked. Sure, the deal wasn't cheap, but U.S. exposure is what the doctor ordered, and I believe the deal will pay off big time a few years down the road.

CIBC currently trades at an 8.92 price-to-earnings multiple, which is substantially cheaper than any Big Five bank at current levels. I believe all the pessimism is unwarranted and the negative concerns are way overblown. If you're a long-term investor looking for deep value and a generous 4.75% dividend yield, then CIBC is simply a must-buy. You'll do very well by picking up shares at these levels, but only if you're willing to own them for the long haul.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/25
Date Created
2017/06/23
Author
joefrenette