RRSP Investors: Should You Buy Canadian Imperial Bank of Commerce Today?

Description

Canadian savers are searching for value stocks to hold inside their self-directed RRSP accounts.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if it is an interesting pick right now.

Cheap valuation

CIBC is trading at a steep discount to its peers. In fact, at less than nine times trailing 12-month earnings, some pundits would say the stock is priced at financial crisis levels.

The four other members of Canada's Big Five banks are trading at multiples ranging from 12 to 13 times.

What's going on?

Investors are concerned CIBC is too heavily exposed to the Canadian market, especially when it comes to residential mortgages and energy loans.

It's true the bank would be hit harder than its peers in the event of a housing meltdown, but most market observers expect Canadian home prices to pull back at a gradual pace, rather than fall off a cliff.

In the event of a sharp sell-off, CIBC should be able to weather the storm.

The bank is well capitalized, and a significant part of the mortgage portfolio is insured. At the end of fiscal Q2 2017, CIBC's loan-to-value ratio on its uninsured mortgages was 55%.

Last August, CIBC said its stress tests suggest the bank would sustain mortgage losses of less than $100 million if house prices fell 30% and Canadian unemployment jumped to 11%.

On the oil front, CIBC finished Q2 with $17.4 billion of direct exposure to the energy sector, of which 71% is considered investment grade.

Lower oil prices will put added stress on some borrowers, but the big banks have said they believe the worst part of the downturn is over for the oil patch.

U.S. growth

The company just secured its purchase of Chicago-based PrivateBancorp in a move that should position CIBC for further growth in the United States and provide a nice hedge against a downturn in Canada.

Dividends

CIBC raised its quarterly dividend earlier this year, so management can't be too concerned about the revenue and earnings outlook.

The current payout should be safe, even if the economy hits a rough patch. At the time of writing, CIBC's dividend yields 4.8%.

Should you buy?

A major downturn in house prices or another steep drop in oil would put additional pressure on the stock, so you have to be willing to ride out some volatility if you own this name.

That said, CIBC is starting to look attractive at the current valuation, and RRSP investors with a buy-and-hold strategy should do well over the long term with this stock.

I wouldn't back up the truck today, but it might be worthwhile to start nibbling.

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