



Why Is Canadian Imperial Bank of Commerce Still So Cheap?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) has always been substantially cheaper than its peers in the Big Six, but did you know that shares of CIBC are also cheaper than smaller regional banks such as **Canadian Western Bank**, which looks much riskier?

CIBC has a hefty mortgage portfolio and a lack of exposure outside Canada compared to its peers, but does it deserve to have a single-digit price-to-earnings multiple? The management team has been making many deals to expand into the U.S. lately, but still, investors still find reasons to avoid the stock.

The recent PrivateBancorp deal seems to solve CIBC's big problem of being too domestically exposed, but this deal won't impact the company's bottom line until 2020. CIBC had to sweeten the pot a couple of times, and the general public seems to think that US\$5 billion was a bit too much to get international diversification.

Sure, CIBC paid a premium price, but I believe investors are too pessimistic over the deal and CIBC in general. To short-term investors, the deal is enough to throw in the towel, but for true long-term investors, the deal opens a door to many growth prospects in the hot U.S. market. Victor Dodig, CEO of CIBC, has been hunting PrivateBancorp for quite a while, and although he paid a high price tag, the deal really fits in nicely given CIBC's long-term goals.

It appears that PrivateBancorp is the missing piece to the puzzle which may finally raise CIBC out of the discount zone. Who knows? Several years down the road, CIBC may trade at a premium to some of its Big Five peers. Following the announcement of the PrivateBancorp deal, Mr. Dodig said, "PrivateBancorp has always been a part of [the company's] medium to long-term strategy."

What exactly is CIBC's long-term strategy?

The company doesn't want to be known as that "risky" bank that's overexposed to the Canadian market anymore. It's not a mystery that the Canadian economy isn't as stable as that of the U.S., and that's why CIBC's peers with U.S. segments have been faring better over the past couple years.

CIBC wants to be a serious contender, and to do this, it needs to catch up to its Big Five peers,

including **Toronto-Dominion Bank**, **Bank of Montreal**, and **Royal Bank of Canada**, all of which have gigantic head-starts when it comes to U.S. expansion.

CIBC is racing to catch up, so expect the management team to be busy integrating its latest acquisition. Smaller tuck-in U.S. wealth management acquisitions are also to be expected over the next few years to boost CIBC's U.S. expansion goals.

If CIBC is behind in the U.S. expansion game, why not just invest in TD, BMO, or RBC?

Sure, you could do that to gain immediate exposure to their top-notch U.S. segments, but you'd be paying a premium. These stocks have price-to-earnings multiples as high as 12.75, which is substantially higher than CIBC's mere 8.96 price-to-earnings multiple.

That's a significant discount that investors should be pouncing on!

Why?

Fears of a Canadian housing meltdown are overblown. Sure, CIBC will be hit the hardest if it happens. But what are the odds of a such a violent collapse? The odds are quite low, I believe. With CIBC, you have the opportunity to get shares of an improving company at a huge discount to its intrinsic value.

Over the years, I believe CIBC has developed a stigma of being that cheap, risky outcast of the Big Five that investors should just avoid. As a result, many investors may have simply scratched the bank off their radars, but I think that's a huge mistake.

CIBC isn't going to be the risky, geographically undiversified bank forever, so investors should really consider paying attention to the company's new long-term plan to become a stronger, safer, more robust bank.

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)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date

2025/09/13

Date Created

2017/08/29

Author

joefrenette

default watermark

default watermark