Are the Fears Over Canadian Imperial Bank of Commerce's Mortgage Growth Warranted?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is one of the best blue-chip value plays in the market today. The general public is fearful over the company's domestic overexposure and its growing portfolio of Canadian mortgages — so fearful, in fact, that I believe that they may be forgetting about the long-term opportunities that make shares an absolute steal at current valuations.

Are Canadian housing fears overblown?

Many pundits would agree that the Canadian housing market is ridiculously overvalued and that a correction could be in the works sometime over the next few years. When most investors hear the word *correction*, they automatically think of a violent crash, but in reality, this is probably more unlikely that many of us would think. A gradual cooling of the Canadian housing market is a more likely scenario, and if this is what actually happens, then shares of CIBC are simply a steal at current valuations.

The management team at CIBC isn't afraid of a potential housing correction; in fact, they see opportunity where others see a potential disaster. Kevin Glass, CFO of CIBC, stated that the bank is "…very comfortable with our mortgage growth. We've been growing faster than the market and that may continue for a little while longer."

In CIBC's most recent quarter, the bank clocked in a 9% increase in net income to $1.17 billion thanks a large part to strength in its retail business. Earnings per share were at $2.77, higher than analyst expectations of $2.66, but shares of CIBC still retreated since the general public is not a fan of CIBC's plans to ramp up mortgage growth. In the last quarter, CIBC saw mortgage growth increase 13% year over year, which is apparently a repulsive statistic to many investors.

CIBC is going against the grain of late, and that’s why shares are so beaten up right now. CIBC is ramping up the segment that investors fear most! So, over the medium term, it’s likely that investorswill continue to treat CIBC as a “lower-quality” bank play because of its growing mortgage exposure. Personally, I don’t think this treatment is warranted, especially considering CIBC’s promising long-term plan.

Dirt-cheap valuation and promising long-term prospects

Shares of CIBC currently trade at a 9.5 price-to-earnings multiple, a 1.6 price-to-book multiple, and a 2.6 price-to-sales multiple, all of which are lower than the company’s five-year historical average multiples of 10.8, 2.1, and 2.7, respectively.

CIBC is cheap because there are medium-term risks involved with the company’s domestic overexposure and its growing mortgage portfolio. But if you look at the long-term plan, CIBC is actually going to be a more diverse, higher-quality earner in five years from now.

U.S. business to the rescue?

The PrivateBancorp acquisition will be integrated, and there are many small tuck-in acquisitions that are likely to happen over the next few years. CIBC is late to the U.S. expansion bandwagon compared to its peers, but it’s not too late to start reaping the rewards of a stronger U.S. economy, which I believe will thrive over the next few years when and if Trump’s agenda is put into place.

Bottom line

The general public is scared to death of owning CIBC over the short to medium term because of fears over its exposure to the hot Canadian housing market. These fears are so great that I believe many investors may be ignoring the bank’s long-term U.S. expansion plans, which will be accretive in 2020.

If you’re not convinced that a violent housing crash is imminent, then CIBC is simply a must-buy today for its safe and attractive 5% yield.

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