1 Top Dividend Stock on Sale

Description

Bargain hunting is an art, and value investors know this art very well.

Finding a great stock that others are unable to recognize is what the world's most successful value investor, Warren Buffett has done that for living for the past 25 years. He buys healthy companies at times when others are selling. By following this instinct, he made billions of dollars in his investments in the financial space.

Some investors are wondering if **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is a "value trap" or a real bargain at a time when its stock is trading at a substantial discount when compared to its peers.

CIBC, one of the largest banking stocks in Canada, has lost investors' favour on speculations that it is overly exposed to the country's cooling housing market. As interest rates rise, some investors fear that CIBC customers may find it hard to pay their mortgages.

CIBC stock has fallen ~13% since March and so far failed to break out of this bearish spell, despite posting encouraging earnings for the third quarter.

Why CIBC stock is trading at discount?

CIBC stock is selling at a discount when compared to other Canadian banks for the two main reasons.

First, the bank has the largest exposure to the nation's two most overheated housing markets: Toronto and Vancouver. In the case of a severe housing correction, CIBC stands to suffer the most losses among the "Big Five" banks.

The second reason for CIBC's underperformance is its lack of international diversification. CIBC generates the lowest portion of its revenues from international banking when compared to its peers.

Some investors feel that this over-reliance on the Canadian market is dangerous, making the lender prone to Canadian economic slowdown.

Is CIBC stock a bargain?

When you factor in all these risks, I think CIBC stock is a bargain. First of all, the Canadian economic cycle is turning in the favour of banks. The job creation and the business investments are pointing to a stronger economy, which is getting out of its sluggish patch after the collapse of energy prices in 2014.

In this pro-growth environment, it's very unlikely that Canadian housing market will face a crash landing. In fact, the latest data suggests that price correction in Toronto is bottoming out, while Vancouver is witnessing a healthy rebound.

I think CIBC's 4.9% dividend yield is one of best one can get from the matured Canadian companies. When you compare this yield with **Royal Bank of Canada's** stock, for example, it's higher by ~1%. Similarly, CIBC's price-to-earnings ratio, at 9.56, is 29% lower than the one RBC is trading at.

Trading at $105.22 a share, CIBC stock is a good buy for long-term income investors who want to take advantage of its attractive valuations.

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