Are Investors Missing Out on Canadian Imperial Bank of Commerce?

Description

Investors that started picking up shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) after the stock bottomed out in the beginning of September are quite pleased now with shares up nearly 10%. And if you had bought when I recommended it towards the end of September, you'd be up over 5% — not bad for a couple of months.

But investors that are looking at this sudden reversal might be questioning if they missed the boat on Canadian Imperial Bank of Commerce. Although I don't believe investors have missed the boat yet, if they don't act, they might be left watching this ship sail away. What makes me say that?

Well, Canadian Imperial Bank of Commerce is the cheapest of the Big Five banks. With a price-to-earnings ratio of 10.46, it is quite a few multiples cheaper than the others. Not to mention, Canadian Imperial Bank of Commerce also pays the highest yield at 4.52%, which is good for a yearly distribution of $4.75. Essentially, you're buying shares for cheaper than the competitors and getting more cash per quarter than the others. That's a sweet situation.

But there is some logic as to why Canadian Imperial Bank of Commerce trails its competitors. Unlike the others, which have expanded into the United States and other parts of the world, Canadian Imperial Bank of Commerce has doubled down on the Canadian economy. And if you've read the news over the past few years, there is concern among financial pundits that the Canadian housing market is cooling. With the Financial Crisis still fresh in investors' minds, the first thought is "housing bubble."

Because of this, Fitch, the credit rating agency, has lowered the outlook for CIBC's debt to negative from stable. But I am not sure if Fitch is right. While it's true that interest rates have increased, and they could have somewhat of an impact on mortgages, the numbers simply don't support the claim that the bank is at risk.

Consider this: delinquency rates are down, not up. When looking at mortgages that are +90 days delinquent, only 0.23% were in Q3 2017 compared to 0.26% in Q3 2016. And when we dive in deeper, looking at the Greater Vancouver and Greater Toronto Areas, which is where a large percentage of the bank's mortgages are, the +90 day delinquency rates are even lower.

The bank has firmly stated it's not concerned. Last year, Laura Dottori-Attanasio, Canadian Imperial Bank of Commerce's chief risk officer, said on a conference call, "when we look at our Greater Toronto and Vancouver area markets, we have better scores as I said than civilian national average, lower ad origination loan to values. Our serious arrear rates are much lower than our overall portfolio, and so the credit quality is very high in these particular segments."

CFO Kevin Glass followed up this year by saying, "we are not at this point anticipating any sort of hand landing. I think there may be some moderation." And I think Glass is right. Housing prices might cool off some, but not in a way that will have a material impact on the bank.

Ultimately, I believe Canadian Imperial Bank of Commerce is undervalued. And I believe that the yield is incredibly strong and generous. I say, take advantage of the fear and buy before the stock reaches parity with its competitors.

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