Despite Risks, Canadian Imperial Bank of Commerce Remains a Top Value Pick for Canadian Financials in 2018

Description

While risks related to **Canadian Imperial Bank of Commerce's** (TSX:CM)(NYSE:CM) business model remain, I'm going to discuss why CIBC remains a far better value play than its major Canadian banking peers.

First, the risks:

CIBC's high level of exposure to the Canadian housing market remains a concern

While Canadian banks have been widely considered one of the safest groups of financial institutions to invest in for years, it is also true that Canadian banks have been targeted of late as potential short plays due to the higher-than-average level of systemic risk that these banks have taken on relative to other countries throughout the world.

The Financial Crisis almost 10 years ago provided many developed countries with a rather unwelcome case of forced de-leveraging. As many households in the U.S. and Europe were forced out of housing markets they should arguably not have had the opportunity to get into, a widespread de-leveraging took place, largely at the expense of national banks.

In Canada, the lack of a real correction in the country's housing market has led to a situation in which mortgage/housing market-related leverage has increased to astronomical levels, much higher in nearly every measurable metric than in the U.S. before its recession nearly a decade ago.

That said, out of the "Big Five" Canadian banks, CIBC retains some of the best fundamentals of the bunch, which makes it a somewhat safer play than its larger peers.

Now for the upside:

Strong fundamentals perhaps the best defence to market risk

As with many industries, in times of economic distress, typically companies displaying value fundamentals tend to perform much better than their growth counterparts, leading to, paradoxically, higher growth rates in value companies than in growth companies during bear markets.

Currently, CIBC has a superior return on equity and operating/profit margins than the majority of its peers; while its top-line revenues remain smaller in relation to its competitors, CIBC has maintained a much lower valuation multiple for some time, currently trading around 11 times trailing earnings compared to **Royal Bank of Canada's** (TSX:RY)(NYSE:RY) 13.9 times earnings and **Toronto-Dominion Bank's** (TSX:TD)(NYSE:TD) 13.6 times earnings.

Additionally, as fellow Fool contributor David Jagielski has pointed out, CIBC has actually done a very good job of growing in the U.S. market, reducing some of its domestic risk accordingly. While I have remained skeptical of the investments made by CIBC in the U.S. market (I believe it overpaid for these assets, and despite these investments, it still trails its Canadian counterparts in terms of diversification), it is true that CIBC has maintained better international growth numbers of late, despite a relatively small sample size.

Bottom line

CIBC may not be as large or as glamorous as its peers, but in terms of value, it's hard to argue with the company's underlying fundamentals.

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