Over the Long Term, This Canadian Bank Is the Best Value Hands Down

Description

It's bank earnings season again! Many investors may still be wary when it comes to the big banks, but going out of your way to avoid having them in your portfolio is a sure way to miss out on fantastic growing dividends to go with promising amounts of stock price appreciation. And shorting them has been an extremely unwise move, despite the major issues that some pundits have pointed out over the last few years.

Sure, the housing market is frothy, and Canadians are some of the most heavily indebted in the world, but at the end of the day, the big banks always find a way to come out on top. Now that we're in a rising interest rate environment, you'll miss out on huge gains if you remain on the sidelines.

I think every investor should have a big bank at the core of their portfolios. If you've got a long-term time horizon, here's an absolute bargain, whose marked-down price, I believe, is temporary given the company's growth trajectory and U.S. expansion efforts.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) started the earnings season off on a high note by clocking in a first quarter which crushed analyst expectations on the earnings front. Adjusted EPS was clocked in at $3.18 for the quarter, crushing analyst expectations of $2.83.

CIBC's Canadian segment saw profit jump to $658 million, up 17% on a year-over-year basis, but it was the U.S. segment which deserved a round of applause. Adjusted earnings rocketed 352% courtesy of the PrivateBancorp acquisition.

Looking ahead, management is going to continue to ramp up its U.S. expansion efforts to further diversify away from the Canadian market, allowing CIBC to make up for lost time as it catches up with its Big Five brothers, which are clear leaders when it comes to geographic diversification of revenue streams.

Dividend raise? Yes, please!

CIBC hiked its quarterly dividend by a modest amount from $1.33 to $1.30. The magnitude of the increase was nothing to write home about, but over the next five years, I do believe the magnitude of such increases will pick up, as earnings growth from the CIBC Bank USA continues to accelerate. Over the long term, it'll be patient investors who will have their pockets lined by CIBC as it gradually becomes a more robust bank.

The PrivateBancorp acquisition was a promising move that made me bullish, but it had many investors skeptical due to the high price paid to get into the U.S. It wasn't a cheap move at the time, but over the long term, I've stated it will pay off and then some.

Right now, investors have a chance to pick up shares at a 10.9 price-to-earnings multiple to go with a ~4.5% dividend yield. CIBC is one of the cheapest banks based on traditional valuation metrics, but over the next five years, I think this valuation gap will vanish as CIBC Bank USA takes off.

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