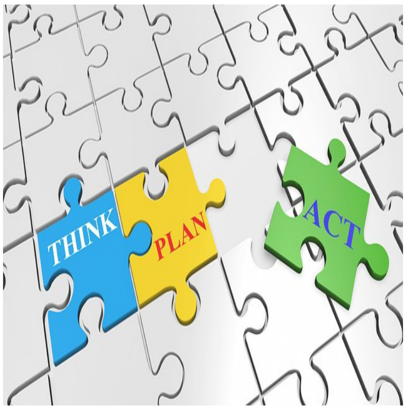

Canadian Imperial Bank of Commerce vs. National Bank of Canada: Which Cheap Bank Is the Better Value?

Description

On the whole, Canadian bank stocks are all pretty cheap right now after the recent pullback across the broader market. When it comes to total returns, dividends, plus capital gains, it's hard to better the Big Six banks over the long term. As such, it's always been a winning strategy to pick up shares of your favourite bank stocks on any industry-wide declines.

Each bank in the Big Six typically trades in line with one another, except for **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **National Bank of Canada** (TSX:NA), both of which have tended to trade at discount to peers based on traditional valuation metrics. There are many reasons behind the valuation gap, but many would agree that CIBC's mortgage growth and National Bank's regional overexposure have made each respective bank an inferior play to its bigger brothers, which are often thought of as "lower risk," "higher quality," or "higher growth."

If you're a value investor, then you want to get quality stocks at a meaningful discount to their intrinsic value. Thus, both CIBC and National Bank remain compelling options for those seeking a wider-than-average margin of safety at the time of purchase.

Without further ado, let's take a look at these two cheap bank stocks and see which one is the superior buy at these levels:

CIBC

CIBC has unfairly been treated as "that fifth 'riskier' bank" of the Big Five in spite of management's efforts to become a more robust, geographically diversified bank like its bigger brothers. Sure, CIBC was late to the party, but better late than never. And unlike CIBC's "higher-quality" bigger brothers, CIBC shares trade at an immense discount that I believe will fade over the next five years, as management continues to successfully build upon its new-found U.S. business.

Approximately 80% of CIBC's revenues is generated on this side of the border, but in time this domestic overexposure will gradually be diluted through its CIBC Bank USA, which management is focused on building.

Moreover, CIBC sports a solid 17.1% TTM ROE, which is much higher than its bigger brothers in the Big Five.

CIBC stock currently trades at a 9.3 forward P/E multiple, a 1.6 P/B multiple, a 2.7 P/S multiple, and a 5.1 P/CF multiple, all of which are slightly lower than the company's five-year historical average multiples of 10.8, 2.0, 2.8, and 6.8, respectively. The dividend yield is also ~0.5% higher than it normally is.

National Bank

If you thought CIBC was domestically overexposed, just have a look at National Bank. Approximately ~90% of National Bank's revenues come from Canada, with a heavy concentration (~60% of revenues) from the province of Quebec.

Unlike CIBC, however, National Bank is not vulnerable to the extremely frothy Vancouver and Toronto housing markets, which some believe could be on the verge of collapse. In addition, National Bank also has a very impressive 18.22% TTM ROE, which is tops of the Big Six.

National Bank stock currently trades at a 10.1 forward P/E multiple, a 1.8 P/B multiple, a 3.0 P/S multiple, and a 4.2 P/CF multiple, all of which are relatively in line with the company's five-year historical average multiples of 11.1, 1.8, 2.8, and 3.7, respectively. The dividend yield, at 4.05% is unremarkable, as it's also in line with the company's historical average.

And the best bank for your buck is…

Based on historical and industry averages, CIBC is severely undervalued due to the company's higher-than-average vulnerability to a collapse in the Canadian housing market. As such, I believe CIBC's large discount already factors for this housing collapse, which I personally believe won't be as dramatic as the general public expects (if it happens at all).

A prolonged cooldown in the red-hot housing market is the most probable scenario, and over the next five years, I'm confident that the price of admission for CIBC will go up, as management's U.S. focus starts to really pay dividends, figuratively and literally.

National Bank appears fairly valued at these levels, and since I believe CIBC has stronger long-term catalysts, CIBC appears to be the much better buy at these levels.

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