Canadian Imperial Bank of Commerce Remains the Best Bargain of the Bunch

Description

The Big Five banks are premium businesses that keep proving the naysayers wrong. You can short them if you like, but odds are you're going to end up losing your shirt as shares continue to appreciate and the dividend grows at its remarkable double-digit rate consistently.

Eventually, the short-sellers will be right, but they could be waiting for years or even decades as they're eventually squeezed from their positions. The banks remain essential core holdings despite fears over the state of the Canadian housing market.

The fact of is that a U.S.-style collapse isn't in the cards, and many of the concerns over the frothy market fail to mention that the probability of a gradual cool down is significantly higher than the doomsday implosion that some short-sellers may be forecasting ad nauseum over the past few years.

If you're looking for a great bank, you simply can't go wrong with any constituents of the Big Six. There are different flavours of banks, but in the end, you'll get a Dividend Aristocrat whose stock price is likely to appreciate more quickly that of the TSX over the long haul. It's the best of both worlds, and any investor who goes out of their way to avoid the banks are doing a great disservice for their portfolios!

The valuation gap between the banks fluctuate over time, but **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has consistently been the cheapest bank versus its peers in spite of management's efforts to address issues that have caused the general public to slap the stock with a discount.

Risk premium over mortgage growth and overall domestic housing exposure? Check. Lack of international diversification? Check.

It seems that CIBC remains the one unloved stock with an inferiority complex. However, with the company making aggressive moves in the U.S. market in order to catch up with some of its peers, I think the discount will gradually fade in time as more earnings surprises cause analysts to readjust their expectations.

Buying the cheapest of any basket of items is seldom a good strategy. In many cases, the discount is warranted and the stock is cheap for a reason, likely because of insidious factors that stand to stunt growth or added risks that imply a greater magnitude of downside in the event of a recession or another unfortunate event.

In the case of CIBC, however, I think the current discount is unwarranted and could be wiped out in five years' time as the U.S. segment gradually begins to account for more of CIBC's total revenues. Management is determined to grow the U.S. segment such that it accounts for 25% of its total business, a process that will likely require expensive tuck-in acquisitions that may stunt the ROE. However, you really do need to pay for quality, and in terms of the long-term outlook, CIBC looks like a far more robust bank in five years compared to five years ago.

Mortgage growth is slowing, so the bears will soon run out of reasons why CIBC deserves to trade at such a low multiple relative to its peers in the space. If you're looking for a wonderful deal, you should scoop up CIBC shares today before the discount disappears.

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