Take a Clue From Warren Buffett and Buy This Canadian Bank Right Now

Description

Bank stocks are an essential nutrient to any portfolio, and Warren Buffett's recent U.S. bank bets, I believe, should send Canadian investors a clue that the banks are among the biggest of bargains that have been unfairly hit in the recent market downturn.

Now, I'd never condone copying any investment guru's moves without ensuring proper due diligence. Not only could you lock in a less-favourable cost basis on your investment, which defeats the main premise of value investing, but you could find yourself holding on to a "dud" for months after a guru ditched it.

Gurus aren't obliged to let you know when they're exiting a position until they're required to do so in their 13F filings. So, with that warning out of the way, consider Warren Buffett's latest 13F filing, which saw the Oracle place a massive vote of confidence on the American banks.

Both Canadian and American banks have fallen further since Buffett's bets in the last quarter. So, with a handful of U.S. banks, you're getting a delicious buying opportunity today. I wouldn't at all be surprised to hear of more bank bets in Buffett's next 13F filing, and while it's somewhat inconvenient to own a U.S. bank in a TFSA (thanks a lot, foreign dividend withholding tax!), there is an underrated Canadian way to profit from the U.S. economy, which, while slowing, is still robust and likely nowhere near a recession.

Enter **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) or CIBC for short, Canada's cheapest bank stock by a mile. The name, while most exposed to Canada's unattractive housing market, has been making a splash in the U.S. market over the past year with PrivateBancorp, now known as CIBC Bank USA.

CIBC's newfound U.S. business serves as a much-needed foundation for the domestically-overexposed bank that's doubling down on its efforts to become a more geographically diversified bank like its bigger brothers in the Canadian banking scene.

Despite CIBC's ambitious long-term growth plan for its U.S. business, CIBC stock continues to trade at the same wide discount to its peers since CIBC got caught with its pants down in the Financial Crisis.

CIBC is still very much a domestic banking play, but over the next decade and beyond, I do believe management will transform itself for the better such that its discount will no longer be warranted.

CIBC's U.S. segment is growing rather quickly, and although there have been bumps in the road (higher expenses in the last quarter), I believe management's expansion efforts will pay significant dividends for investors willing to hang on to the name for decades at a time.

At the time of writing, CIBC stock trades at a 8.4 forward P/E, a 1.4 P/B, a 2.6 P/S, all of which are considerably lower than the company's five-year historical average multiples of 10.8, 2.0, and 2.8, respectively. This kind of valuation, I believe, factors in a high probability of a worst-case scenario, whereby Canada's housing market crumbles like a paper bag. Not only do I think the likelihood of such a violent event is lower than implied in CIBC's severely depressed valuation, but I also think CIBC is better prepared to deal with such a stressful event than most would expect.

Sure, CIBC remains exposed to a single source of failure, and it didn't handle the last recession well, but with a stronger management team led by CEO Victor Dodig, I think investors ought to give the bank the fresh slate it deserves, because of all the Big Six banks, CIBC looks best positioned to make the most significant improvement.

Foolish takeaway on CIBC and Buffett's bank bets

With CIBC, you're essentially taking a stock tip from Uncle Warren.

He's bullish on the cheap blue-chip banks, and he's probably buying more U.S. banking giants as we speak. While he hasn't bet on a Canadian banking name yet, my guess would be he'd be interested in CIBC due to its severe undervaluation if he were to venture north for an investment.

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