Hot Bank Alert: This Canadian Bank Skyrocketed 20% in 3 Weeks!

Description

Laurentian Bank of Canada (TSX:LB) is skyrocketing with shares up around 20% over the past three weeks. Back on December 21, I was pounding the table of Laurentian Bank and its dividend, which yielded 7% at the time. I noted that the stock had a "wide margin of safety" and that the dividend would continue to grow as Laurentian Bank had more than enough wiggle room to support consistent dividend hikes.

Again, on January 3, I urged investors to continue buying Laurentian Bank stock, noting that the dividend yield was the *highest it had ever been* for reasons that I believed were overblown.

"Laurentian sports a 6.71% yield, a tad lower than where it was when I encouraged investors to buy the stock on the dip when the yield hit the 7% mark. Although regional banks aren't my cup of tea when there are geographically diversified banks out there, the current valuation [still] has me enticed," I said.

Fast-forward to today, and shares that had a ridiculously low 7.3 forward P/E a few weeks ago are now sporting a more modest, but still depressed forward P/E of 8.7.

Indeed, Laurentian was unsustainably undervalued in the days leading up to Christmas, and although the regional bank had fallen under the radar of most investors since the bank's unique "mini mortgage crisis," deep-value investors were quick to spot the wide discrepancy between the stock's market value and its intrinsic value.

Now, Laurentian Bank stock is still well off its high, down over 27% from its peak, but given the "additional baggage" you're getting with Laurentian Bank, I'd say the stock deserves to trade at a substantial discount to its bigger brothers in the Big Six. As such, for those who missed the rally, you might want to back away from Laurentian Bank, as the stock no longer trades at a big discount to its intrinsic value. And for those who bought Laurentian on my advice, I'd encourage you to take your profits off the table because shares appear fair-valued at best.

The better bank bargain?

Based on next year's expected earnings, **Canadian Imperial Bank of Commerce** (TSX:CM)(
NYSE:CM

) is far cheaper, with an 8.4 forward P/E. With its U.S. business slated for continued growth, I believe that CIBC is a much better business model. Management is also operating at a very high level, and although the last quarter showed higher expenses arising from U.S. operations, I don't believe it's the start of an insidious trend.

Foolish takeaway on Laurentian Bank and CIBC

CIBC shares have a 5.1% yield, lower than Laurentian Bank's 5.88% yield, but in terms of the price, you're paying for what you're getting over the next three years. CIBC is therefore a much bigger bargain if you're willing to forgive the 0.5-0.8% difference in yield.

Furthermore, concerning the potential for capital gains, CIBC will likely blow Laurentian out of the water over the near-, medium-, and long-term. CIBC is riding the wave higher, and given its "mortgage baggage," will probably wipe out and surrender a chunk of the gains put up over the last few weeks.

Sell Laurentian Bank and buy CIBC!

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