



Why CIBC (TSX:CM) Stock Looks Undervalued Beyond Proportion

Description

There's undervalued, and then there's undervalued beyond proportion.

After the recent first-quarter bank stock carnage, **CIBC** ([TSX:CM](#))([NYSE:CM](#)) is a bank that I believe is trading at a substantial discount to its intrinsic value. Sure, the stock is still pricier than in December, when the markets flirted with bear market territory, but nonetheless, CIBC is still incredibly cheap relative to most other stocks on the TSX, especially when you consider it's likely that the worst of the negativity could already be in the rear-view mirror with the ugly Q1 2019 results out of the way.

The [macro environment](#) still looks less than ideal for the Canadian banks at this juncture. But that's old news, and as you're likely aware, the stock market is forward-looking. So, it makes sense to focus on where the puck is headed next, rather than fretting on where the puck has already been.

CIBC's [Q1 results were pretty abysmal](#), and as a result, CIBC stock pulled back considerably, surrendering a good chunk of the gains enjoyed when the stock bounced off its December low.

At the time of writing, CIBC stock is down over 10% from its 52-week high, and with a bountiful 5% dividend yield, I think income-savvy investors have many reasons for why the name should be at the top of their shopping lists this spring.

First, CIBC is absurdly undervalued based on traditional valuation metrics.

As you're probably aware, CIBC is a perennially cheap stock that almost always trades at a discount relative to its peer group. The bank's domestic overexposure and huge book of Canadian mortgages are a significant reason for this valuation gap.

More recently, CIBC clocked in two disappointing quarters, which severely exacerbated the negativity of investors, essentially causing shares of the already cheap stock to become even cheaper.

At the time of writing, CIBC trades at a 9.2 forward P/E, a 1.5 P/B, and a 2.8 P/S, all of which are lower than the company's five-year historical average multiples of 10.8, 1.9, and 2.9, respectively. The stock is essentially priced with an impending disaster on the horizon, when in reality, the future may be a lot

more benign than overly pessimistic investors are inclined to anticipate.

Second, CIBC has a lot going for it when you consider taking a long-term viewpoint. Yes, loan growth was muted in recent quarters (a clear negative) compared to CIBC's bigger brothers, but I think the slower mortgage growth and falling mortgage margins are a blessing in disguise.

Why?

CIBC's overexposure to domestic mortgages has often been a characteristic that's frowned upon. It's not a mystery that Canada's housing market is overheated and may be at risk of a violent downturn that could lead to substantial loan losses.

CIBC is guilty as charged with having the largest exposure to Canada's housing market, but when you consider the trajectory (lowest mortgage growth of the Big Five), and the more conservative mortgages being handed out, I think investors have got to cut CIBC some slack. It seems investors couldn't care less about what CIBC is poised to become and are more interested in what CIBC was in the past — a sub-optimally capitalized bank that got caught with its pants down in the last recession.

Come the next recession, however, I don't think CIBC will be gutted as badly. The bank is on the right track, and with CIBC Bank USA starting to experience remarkable improvements across the board (more controlled expenses and increasing margins), I think the U.S. business is the perfect launchpad for what could transform CIBC into a perennially cheap stock into a premier stock that's worthy of a premium multiple.

Foolish takeaway on CIBC

If you've got a long-term horizon, I'd suggest nabbing CIBC shares on the recent pullback (around \$110), as the recent strikeout, I believe, is not the start of a trend of misses. Instead, I think CIBC is just hitting a bump in the road, no thanks to the unfavourable macro conditions that it's been served of late.

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