Income Investors: CIBC (TSX:CM) Is Far Too Cheap to Ignore

Description

CIBC (TSX:CM)(NYSE:CM) stock can't seem to catch a break. The capital markets business has been a major drag of late, and with nothing but the harsher macro environment to look forward to in the remaining three quarters of the year, it's looking like another tough road ahead for Canada's fifth-largest bank as its earnings-growth numbers look to dive.

CIBC usually has a fat discount slapped on its stock because of its overexposure to the shaky domestic housing market and its lack of geographic diversification relative to the Big Four. With CIBC's mortgage growth facing a drastic slowdown, as the bank continues to beef up its presence south of the border, the discount has remained intact, despite CIBC's now more favourable long-term trajectory. Add the combination of slowed economic growth and stalled rate hikes into the equation and CIBC has seen its slide become severely exacerbated relative to most other Canadian banks.

Sure, CIBC is the easiest Canadian bank to hate due to the bank's horrendous history of holding its own during times of recession. For contrarian value investors who seek the most for their dollar; however, I believe the company's prior shortcomings are forgivable at these depressed valuations.

CIBC stock is now so cheap that the dividend yield, currently at 5.3%, is close to the highest it's ever been. And should the bank sell-off continue in the coming weeks (I think it will), investors may have the rare opportunity to lock in a yield at or around 6%.

At the time of writing, CIBC stock trades at a 8.6 forward P/E and a 1.4 P/B, both of which are considerably lower than the five-year historical average multiples of 10.8 and 1.9, respectively.

Despite a plethora of promising longer-term improvements (improved internal processes and continued growth from the U.S. business) that stand to make CIBC a better version of itself five years from now, the stock's discount relative to its peers hasn't narrowed.

In fact, in recent months the valuation gap has widened further, as investors grew more concerned about the near-term concerns plaguing CIBC, including weak numbers from the capital markets business and more substantial credit losses from Q1.

From a longer-term perspective, it becomes more apparent that CIBC is a steal. The capital markets weakness wasn't unique to CIBC, and as we gradually move out of this temporary bout of macro weakness, the banks including CIBC will become great again. But, of course, by the time they're back in the good books of investors, the price of admission would have gone up.

At just 8.6 times next year's expected earnings, CIBC looks like a very handsome income stock with minimal further downside. The pessimists are calling the shots right now, and that's exactly when you should be buying.

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joefrenette