Contrarian Investors: Is Canadian Imperial Bank of Commerce (TSX:CM) Stock on Sale?

Description

The rally in the equity market over the past four months has wiped out a good number of the deals that were available heading into the 2018 holiday season.

However, investors can still find top-quality TSX Index stocks that are trading at reasonable prices and pay attractive dividends.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM) (NYSE:CM) to see if it deserves to be on your buy list today.

Unloved

Every time market sentiment shifts against the Canadian financial sector CIBC tends to get hit harder than its larger peers.

Why?

Part of the fear lies in the company's track record of making big blunders. CIBC had to write off roughly $10 billion in bad bets on U.S. subprime mortgages during the Great Recession. And those who have followed the stock for a long time are well aware that CIBC got caught up in the whole Enron debacle. The company came under fire for allegedly helping Enron hide its misdeeds and agreed to pay a US$2.4 billion settlement in 2005, without admitting any wrongdoing. CIBC recently settled a disagreement with the CRA connected to its claiming of the settlements as deductions from income.

In addition, CIBC is widely viewed as being the most exposed of the Big Five Canadian banks to a potential meltdown in the Canadian residential housing market. It's true that CIBC holds a significant mortgage portfolio relative to its size and if house prices tank over a short period of time, CIBC would likely take a more significant hit than its larger peers.

Fears overblown

Investors should focus on the company that exists today, rather than the one that ran into all the trouble in the past. Surprises could still come up, but it's unlikely that CIBC's next stumble will be on the same magnitude.

Regarding housing, Canadian homeowners have managed to ride out the past two years of rate hikes in pretty good shape. The housing market has cooled off and more settling should be expected, but the government appears to be achieving its goal of a soft landing.

With the Bank of Canada and the U.S. Federal Reserve currently sitting on their hands, additional rate hikes are not expected this year and some analysts suggest the next moves could actually be cuts. This should in turn reduce the likelihood of a plunge in home prices triggered by higher mortgage costs.

In the event that borrowers start to run into trouble, CIBC is capable of riding out a reasonable downturn, as the company is well capitalized with a CET1 ratio of 11.2%. The uninsured mortgages have a loan-to-value ratio of 54%, so things would have to get pretty bad before investors should start to worry.

Unemployment is near historical lows on average across the country and the Canadian economy remains in decent shape, so there doesn't appear to be any major near-term dangers.

Should you buy?

At the time of writing CIBC trades at $113 per share at writing. That's about 10 times trailing 12-month earnings, which is a steep discount to the 12.5 times investors are paying for the country's two largest banks. Some difference should be expected, but the spread might be overdone right now.

CIBC continues to generate good profits and the dividend should be rock-solid. The current payout provides a yield of 5%, which is a healthy return while you wait for sentiment to shift.

If you have some cash sitting on the sidelines, CIBC might be an attractive pick today for a buy-and-hold dividend portfolio.

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