Canadian Imperial Bank of Commerce (TSX:CM): So Cheap, it's Embarrassing

Description

Mr. Market doesn't always price his stocks properly. He messes up more than most investors would think, especially when it comes to Canadian securities that experience lower trading volumes versus their U.S. counterparts. It's this "messing up of pricing" that provides an opportunity for Foolish investors to pay a nickel to get a dime by buying shares of stocks whose market values are considerably lower than their intrinsic values.

Warren Buffett doesn't see the intrinsic value of a business as a precise price on a given security. He likes to think of it as a range, and if an investor can pull the trigger on a stock that's slightly below that range, a significant margin of safety can be obtained at the time of the security's purchase.

Finding the range of a firm's intrinsic value may be a tough task for an individual investor, but in rare instances, there are times that firms that are so out of favour and so exaggerated to the downside that it becomes more apparent the firm's stock is trading at a multiple that's way below the range of its intrinsic value.

Consider **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), a Big Five Canadian bank that's arguably the least loved of the bunch. The stock has been a perennially discounted play relative to its bigger brothers thanks to a number of unattractive traits (overexposure to the domestic housing market being the main one that's on the minds of most investors). Following the release of its latest second-quarter earnings, the cheap stock just became a heck of a lot cheaper.

The quarter was a disaster. Or at least that's what the average investor on the Street was thinking. While there were obvious dents in CIBC's armour, I thought the +7% two-day decline that followed was overblown beyond proportion.

Why?

CIBC was already pretty oversold going into earnings. Most folks knew that slowed loan growth, higher expenses, and higher provisions for credit losses were coming. Although the quarter proved the short-sellers were right on the money, with efficiency ratios continuing to deteriorate as expenses crept up higher than some expected, the quarter wasn't detrimental from a longer-term perspective.

Macro headwinds are hurting the entire sector, and seeing as CIBC was arguably the most exposed to these domestic headwinds, it shouldn't have been a surprise to see the company drop the ball. Analysts have since downgraded the stock after seeing the cringe-worthy Q2 numbers, but there were some longer-term positives that bargain hunters should be licking their chops at.

The ailing capital markets improved, the U.S. business continues to grow at an impressive rate, and, most importantly, the valuation is the lowest it's been in recent memory.

CIBC's credit is slated to decay further over the near term, and the bar has been lowered substantially after the poor Q2 results. From a longer-term perspective, though, the stock looks like a screaming bargain. Investors fear the short-seller thesis, and now that some of the proof is in the pudding, I think most shareholders have already run for the hills.

At the time of writing, the stock is down around 17% from its high and is touching down with a strong support level at around $101. Given that nothing but pessimism is baked into the stock, and the now severe undervaluation of shares relative to the peer group, I see an opportunity for long-term thinkers to lock in a 5.4% yield to go with what I think is a 20-25% discount on shares at $104 and change.

It may seem foolish to jump into the stock after the short thesis has gained more credibility, but that's precisely what Fools ought to do if they're to achieve superior results over time.

Like working out, contrarian investing is all about short-term pain for long-term gain.

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Date
2025/08/21
Date Created
2019/05/29
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