TFSA Investors: A Banking Stock I'm Betting Will Outperform the Market This Summer

Description

Canadian banks are in a rut. Many Canadian investors are taking a rain check on buying the dip this time around thanks to the plethora of macro concerns that have plagued the entire baking scene over the past year.

Slowed loan growth, a questionable preparedness in dealing with the next credit cycle, and plenty of short-sellers voicing their opinion have caused investors to re-think their decision of buying the bank stocks on the dip. Canada's bank stocks are the most unattractive they've been in recent memory — at least through the eyes of investors. But that's exactly why Fools like me are interested in them at this critical juncture.

While short "attacks" on Canada's banks are nothing new, quickly escalating PCLs (provisions for credit losses) and surging expenses are giving the shorts more credibility this time around. But in spite of this, there is plenty of value to be had for longer-term thinkers who are willing to take on a bit more short-term volatility to "lock in" a slightly higher dividend yield at considerably lower valuations.

Without further ado, consider **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), a bank that I've often referred to as "Canada's easiest bank to hate." Given all the pain endured by investors during the last recession, it's not a mystery as to why the name has been in the doghouse over the past year, as the bank's credit revealed some weak spots once again.

PCLs are roaring, expenses are flying, loan growth is slowing, and as recession fears escalate, CIBC is the bank that's going to be punished most, not just because of its highest exposure to the Canadian housing market, but because the bank isn't the most conservative bet of the Big Five to begin with. You could say the name is among the most aggressive players compared to its bigger brothers.

Despite the bank's troubled history of dealing with economic downturns, I believe the recent punishing in shares is overblown beyond proportion. CIBC is a better-managed bank than it was leading up to the Financial Crisis and shouldn't be seen as a ticking time bomb for those who believe a recession islikely over the next few years.

Moreover, earnings quality is slowly but gradually improving with the U.S. segment, which was a small bright spot on an otherwise dreary first half of the year. The stock currently trades at 8.5 times next year's expected earnings and 1.3 times book. The forecast is bleak, but given today's depressed valuation, I'd say there's a considerable margin of safety, even given the Canadian housing slowdown.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2019/06/10
Author
joefrenette