TFSA Investors: Why Now Is the Time to Lock-in CIBC's (TSX:CM) 5.5% Dividend Yield

Description

CIBC (TSX:CM)(NYSE:CM) is a steal that's hidden in plain sight. While the perennially cheap bank has almost always traded at a significant discount relative to its peer group, the valuation gap, which has since widened thanks in part to two weak quarters, has widened substantially such that the dividend yield is close to the highest it's been in recent memory at 5.5%.

The higher yield comes with its fair share of baggage

I know many folks aren't fans of CIBC and its domestic overexposure to Canada's fickle housing market, but at these severely depressed valuations, something has to give.

Investors seem to be treating CIBC as some sort of alternative mortgage lender rather than a Big Five bank that's expanding its footprint in the "sexier" U.S. market.

Sure, CIBC has its fair share of uninsured Canadian mortgages and is currently in the crosshairs of some well-known short-sellers, most notably Steve Eisman, but at 8.1 times forward earnings, one has to think that most, if not all of the damage has already been done to the stock.

At the time of writing, shares are down around 18% from all-time highs hit last September. While CIBC doesn't have the best track record (it got obliterated in 2007-08), I do think investors are discounting the improvements made (and lessons learned) since escaping the depths of the Financial Crisis.

Don't underestimate CIBC's U.S. expedition

Management is keen on building upon its U.S. exposure so that one day, the market will account for a quarter of revenues. And while U.S. acquisitions will come with a premium price tag, I do think the slow and steady transition will warrant for some significant multiple expansion as CIBC evolves to more closely resemble its diversified bigger brothers in the Big Five.

Right now, nobody is talking about CIBC's long-term growth runway in the U.S. market. It's all about the last two sub-par quarters, the rising provisions, the weak capital markets segment, the analyst downgrades, and the bank's seemingly "ill-preparedness" for the phase of the credit cycle.

Investors have lost sight of the longer-term picture because of the nearer-term headwinds that have been blown out of proportion by short-sellers who've regularly made appearances in the media to talk down CIBC and the Canadian banks overall.

Foolish takeaway

In time, when macro headwinds gradually fade away, investors will realize that they had nothing to fear but fear itself. The Foolish ones who went against the herd in spite of the harsh near-term prospects will be the ones that will have the most to gain as the banks see the light of day again.

At $102, CIBC looks fundamentally undervalued and technically-poised for a breakout in spite of the negative near-term outlook.

Stay hungry. Stay Foolish.

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