



CIBC (TSX:CM) Stock Could Correct to the Upside on Better-Than-Feared Results

Description

CIBC ([TSX:CM](#))([NYSE:CM](#)), Canada's least-loved Big Six bank stock, has become so [cheap](#) in recent months that it's hard not to want to back up the truck as a value-conscious investor.

While shares of CIBC have often traded at a considerable discount to its bigger brothers, the recent valuation gap widening caused by broader industry headwinds, I believe, is now overblown beyond proportion.

Investors appear to be preparing for a repeat of the 2007-08 Financial Crisis, and while there have been significant dents in the armour of CIBC in the first two quarters of the year, I think the bank is closer to bottoming out than suffering a catastrophic implosion that some short-sellers are convinced will happen over the coming months.

The shorts are touting CIBC's "ill-preparedness" for the next credit cycle, and while the bank has a history of landing on its face when the banking scene faces a bit of turbulence, I think the capabilities of management led by CEO Vic Dodig are over discounted. CIBC isn't the same house of cards as it was prior to 2007, even though it seems like it after missing estimates for three straight quarters.

CIBC's latest quarter confirmed the fears of many. EPS growth was sluggish, provisions were surging, and expenses were getting out of hand. Management guided lower, expecting "flatter" EPS growth for 2019 versus the mid-single-digit expectations. While few, if any, catalysts are on the horizon over the near term, I think the valuation is a reason to love CIBC stock, despite its shortcomings.

While EPS growth and ROE improvement will be hard to come by over the next three years, I am a fan of CIBC's U.S. expedition and the stock's absurdly cheap valuation.

At the time of writing, CIBC trades at just eight times next year's expected earnings alongside a 5.5% dividend yield. Low to no EPS growth and pressured ROEs are pretty much baked into the stock here, and while CIBC is unlikely to pull ahead of its peers in the second half of the year, I think there's a chance that CIBC will correct upward on "better-than-feared" results.

The shorts have had their say, management has lowered its guidance, and most weak-handed investors have already fled the stock. At \$100 and change, CIBC has a heck of a lot of [upside](#) should an upcoming quarter show evidence of decelerating credit decay as the credit cycle normalizes.

If you're not buying into the bearish theses of short-sellers who've been taking advantage of the media limelight to talk down the big banks, it may be time to back up the truck on CIBC while the yield nears the highest it's been in recent memory.

Sure, CIBC has the most to lose in a Canadian housing meltdown, but it also has the most upside if the bank is able to jump over the low bar that's now set.

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