RRSP Investors: Is CIBC (TSX:CM) Stock Too Cheap to Ignore?

Description

Canadian savers are finally getting a chance to buy top TSX Index stocks at reasonable prices. Some even appear heavily oversold.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), for example, traded for $124 per share last September. At the time of writing, investors can buy the stock for less than $100.

What's going on?

The trade war between the United States and China is stoking fears that the battle could put pressure on global growth and potentially send the United States into a recession. When the U.S. sneezes, Canada normally catches a cold, and that would be negative for CIBC and its peers.

An economic downturn could result in a jump in unemployment, which would put pressure on Canadians who are carrying historically high debt loads, including mortgages. CIBC, in particular, has significant exposure to the Canadian housing market.

This isn't the first time the market has focused on mortgage risks.

Last fall, investors sold CIBC on fears that rising interest rates would boost defaults in the housing market and trigger a plunge in prices. Now that the U.S. is cutting rates and Canada has put rate hikes on hold, it is less likely housing will take a big hit due to higher borrowing cost.

In addition, bond yields have plunged in the past few months, giving CIBC and the other banks some wiggle room on fixed-term mortgages rates. This should translate into more sales, while allowing existing homeowners to renew at rates they can afford.

As long as people continue to have jobs, the Canadian housing market should be fine. In the event things get a bit ugly, CIBC is well capitalized and should be able to ride out a downturn.

Growth

CIBC has invested more than US$5 billion in the past couple of years to build a larger U.S. presence. This diversifies the revenue base and provides the company with a good platform to expand its presence in the private and commercial banking segment south of the border.

Dividends

The bank generates strong profits and continues to raise the dividend, so management can't be overly concerned about the revenue outlook. The current payout provides a yield of 5.6%.

Should you buy CIBC today?

The stock trades at close to 8.5 times trailing earnings, which is a huge discount to the largest Canadian banks that fetch multiples above 12 times profits. A difference is expected, but the gap appears too wide in the current environment.

If you have some cash available, CIBC should be an attractive contrarian pick right now for a self-directed RRSP.

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aswalker