Ignore the Short-Sellers: Buy Canadian Imperial Bank of Commerce (TSX:CM) Today

Description

Canada's Big Five banks continue to attract considerable negative press as a range of headwinds impact their growth and outlook. That has seen them become favoured targets of short-sellers who believe that a U.S.-style banking meltdown is due. Each of the Big Five banks are among the top-10 most shorted stocks on the TSX, with **Bank of Nova Scotia** being the largest short position on the bourse.

Surprisingly, the most domestically focused of the Big Five banks, which is perceived to be the most vulnerable to emerging economic headwinds, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is attracting significantly less negative attention than more diversified financial institutions like Scotiabank. That sees it ranked as the fifth-largest short position on the TSX.

It has also been the worst performing of the Big Five, only gaining 9% since the start of the year compared to the best performer **Royal Bank of Canada**, which has risen by a healthy 15%. While Canadian Imperial may not offer the same growth potential as its more diversified peers such as Scotiabank or **Toronto-Dominion**, it does appear very attractively valued, making now the time for investors to consider buying.

Attractively valued

Canadian Imperial's stock is a mere nine times its projected earnings and 1.4 times its book value, indicating that it is the cheapest of the Big Five banks behind **Bank of Montreal**. When the bank's solid third-quarter 2019 earnings are considered, which included a 1% year-over-year increase in net income, it becomes clear that Canadian Imperial is too cheap to ignore. The bank also reported an impressive return on equity of 15.6%, which, while 1.5% lower than for the equivalent period a year earlier, indicates that Canadian Imperial is delivering value for investors.

Canadian Imperial also possesses a high-quality credit portfolio as highlighted by its third-quarter gross impaired loans ratio of a mere 0.45%, which is significantly lower than Scotiabank's 0.86% and one of the lowest among its peers. The bank's credit quality is improving, contrary to the claims regarding the credit cycle made by various prominent short-sellers, including Steve Eisman. Impaired loans are trending downward, having fallen by 12% compared to the previous quarter to $1.8 billion, and the Canadian consumer net write-off ratio of 0.28% was 0.02% lower quarter over quarter.

Despite the difficult operating environment and emerging economic headwinds, Canadian Imperial's earnings should continue to grow at a steady clip, because the bank is introducing a range of initiatives aimed at expanding its margins. Those plans are already having a noticeable effect, as evidenced by Canadian Imperial's third-quarter efficiency ratio falling by 0.2% to 56.4%. It is important to note, that the lower a bank's efficiency ratio, the more effectively it is using its assets to generate revenue.

Earnings will be further bolstered by Canadian Imperial's ongoing expansion of its U.S. operations aimed at building its advisory capabilities and boosting profitability south of the border. This will be assisted by signs that the U.S. economy may be stronger than initially anticipated. A Chicago Federal Reserve official recently stated that there appears to be no need for further interest rate cuts, and stronger-than-expected third-quarter corporate earnings point to a health economy.

Foolish takeaway

Canadian Imperial may not be the most popular of the big banks among investors, but credible third-quarter 2019 results coupled with its focus on controlling costs, growing earnings, and attractive valuation metrics mean that it is too cheap to ignore. If investors buy Canadian Imperial today, they can lock in a sustainable dividend payment yielding a very juicy 5.2%, which is the highest yield of the Big Five banks.

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