Buy CIBC (TSX:CM) Stock by December 5 or You'll Kick Yourself Later!

Description

There's no question that **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock deserves to trade at a discount to its bigger brothers. The company has a reputation for being ill-prepared for economic downturns and is a latecomer to the party when it comes to diversification beyond the confines of Canada.

Over the last two years, the valuation gap between CIBC and its peers has widened substantially amid industry-wide macro headwinds such that the name now trades at a lower multiple than **National Bank of Canada** (TSX:NA), a less geographically diversified bank with a much lower yield.

Although CIBC has a weak track record, I don't think the name deserves to be cheaper than a more regional bank (more than half of revenues are derived from Quebec), given the progress that's been made under Dodig.

There's a stigma that's still attached to CIBC, and the recent attack by short-sellers, I believe, has exacerbated the unwarranted pessimism on the name. Some smart short-sellers like Steve Eisman have targeted CIBC, citing that the bank isn't well prepared to deal with the next phase of the credit cycle.

All the banks have hit a bump in the road over the past year, but given CIBC is arguably the easiest Canadian bank stock to hate, the stock was more inclined to overextend to the downside.

That's why the stock corrected slightly to the upside after pulling the curtain on better-than-feared third-quarter results. The results themselves weren't spectacular, but whenever you've got expectations that are set to the floor, it's easy to pole-vault over them with otherwise unremarkable results.

I strongly urged investors to start buying CIBC stock before it reported its Q3 earnings, noting that the risk/reward trade-off was favourable with shares trading at just 7.9 times forward earnings at the time. I also highlighted the fact that CIBC's Q2 provisions were weighted towards a single "bad apple" that the bank had since "rid itself of" and that another such rise in provisions would be highly unlikely.

Fast forward to today, and CIBC remains ridiculously cheap going into fourth-quarter earnings, which are slated to release on December 5. The bar is still set low for Q4, and I think another round of "better-than-feared" results could take the stock back to its all-time high, as investors shrug off the concerns laid out by the shorts earlier this year.

CIBC's mortgage growth has been very sluggish relative to its peers, but credit remains stable. CIBC's U.S. business has also been picking up a lot of traction of late, and with meaningful improvements that continue to be discounted by folks on the Street, I'd say that it's just a matter of time before CIBC stock becomes worth more than National Bank as it should.

Yes, CIBC is still the most vulnerable to a Canadian housing market bubble burst, but the risk looks more than baked into shares at this juncture. The stock trades at 9.3 times next year's expected earnings with a 5% yield. I'd bag the bargain today before the stock makes its return to $125.

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