Why CIBC Could Be One of Canada's Top Banking Stocks to Buy for 2020

Description

It has been a rough ride for **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) shareholders. In three of the past four years, the company has been the worst-performing bank of the Big Six.

In fact, over the past five years, the bank has only achieved a compound annual growth rate of 3.71%. This is not only significantly below the average of its peers, but it also trails the **S&P/TSX Composite Index**'s CAGR of 4.01% over the same period.

On the bright side, as CIBC's yield is among the best of its peers, it fared a little better that the share price performance suggests. When including the dividend, the stock delivered total returns of 50.33% over the past five years.

While this is below the Big Six average of 69.09%, it is almost double that of the **S&P/TSX Composite Total Return Index** (37.77%).

In 2019, it was a mixed year for the company. The company once again brought up the rear in terms of share price appreciation (6.27%), but it ranked third in terms of total returns (12.03%) thanks to its juicy dividend. Here's why now might be the perfect time to buy Canadian Imperial Bank of Commerce.

A simple investing strategy

At these price levels, the case can be made to buy any of Canada's Big Six banks. However, there is a simple investing strategy that investors can use at the beginning of the year to help inform their decision making: buy the worst-performing Big Six bank of the previous year.

This back-tested strategy has led to outperformance in 14 of the past 20 years: a 70% success rate. Despite CIBC being a perennial underperformer, the only years in which it finished back-to-back as the worst performing Big Six bank was in 2018 & 2019.

It is also worth noting that Canadian Imperial was last in nine of the past 20 years, but outperformed in seven of the years that followed — a 78% success rate.

No bank has thus far finished last over three consecutive years. The strategy has led to an average outperformance of 500 basis points on a yearly basis, which is quite a big difference.

Canada’s cheapest bank

Given that it has chronically underperformed over the past two years, no bank offers better value that Canadian Imperial Bank of Commerce. The company is trading at a 19% discount to its historical P/E averages, almost double the Big Six average discount (10%).

Like clockwork, Canada’s big banks always return to trade in line with historical averages. It is not a matter of if, but when CIBC’s stock will close the gap.

At price-to-book and price-to-earnings ratios of 1.355 and 9.69, respectively, CIBC’s stock is the cheapest it has been over the past decade. Apart from a brief period last year, the bank hasn’t been this cheap since the financial crisis.

It’s important to note that an investment in Canadian Imperial is not without risk. In 2020, it has the lowest expected growth rates among its peers and it has the highest dependency on the Canadian market.

Similarly, it recently made headlines as it faces more than $50 million in potential losses over alleged fraud by a trucking firm.

Despite this, now might be a good time to head Warren Buffet’s advice to be *“fearful when others are greedy and greedy when others are fearful.”*

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