Investors: This Bank Stock Is Embarrassingly Cheap

Description

The last year or so hasn't been especially good for Canada's largest banks.

Two major issues have kept bank stocks down, as the rest of the market rallied. Firstly, mortgage growth has slowed down considerably. The overall Canadian real estate market isn't quite as robust as it used to be, meaning there are fewer buyers chasing down property that has increasingly become unaffordable. This is especially true in major markets like Toronto and Vancouver.

Secondly, the Canadian economy just can't get much of anything started. Consumers are more indebted than ever. Key sectors like the energy space continue to be weak. And job creation is tepid at best. Put all this together, and it seems like a recession could be imminent. Such an event would undoubtedly lead to higher loan losses at the top banks, which is what investors are really worried about.

Some analysts might argue it's time to avoid bank stocks, but I disagree. In fact, I'm doing the exact opposite. I continue to buy Canada's top banking stocks for my portfolio. Economic risk is well priced in here, and some of the stocks are so depressed, they're trading at bargain-basement prices.

Let's take a closer look at one of Canada's cheapest bank stocks — shares that are so inexpensive, you'll hardly believe it.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has underperformed its peers for a few years now.

It seems like CIBC always has something wrong with it. First it had no major U.S. exposure, a sin it corrected several years ago with its PrivateBancorp purchase. These days, the focus seems to be CIBC's increased exposure to the Canadian housing market, a decision that is expected to lead to weak growth in 2020.

But there's a lot to like here, too. Canadian banking is a wonderful business that will inevitably thrive after this weakness is through and the economy really starts growing again. CIBC, along with its rivals, dominate the domestic banking market. The majority of its mortgage portfolio is exceedingly safe, boasting either low loan-to-value ratios or mortgage default insurance protection. And it's in a solid position to acquire other interesting assets that can really boost its business.

In the U.S., meanwhile, CIBC has a big focus on wealth management — a trend I expect will lead to solid growth for decades to come. Not only will the company benefit from organic growth, but it will likely make further acquisitions in the space. The U.S. financial market is still pretty fragmented, including wealth management.

Despite all this going for it, the market can't see past projected short-term weakness. This has pushed CIBC's valuation down to an almost silly-cheap level. In 2020, the stock is expected to earn $12.04 per share. As I type this, CIBC shares currently trade hands at $109.87. That gives us a price-to-forward earnings ratio of just 9.1. That's incredibly cheap.

But wait. It gets better. Thanks to its low valuation, CIBC also offers the best dividend yield among Canada's five largest banks. The current payout is 5.3% — an excellent dividend yield compared to various other fixed-income options. And with a payout ratio of under 50% of 2020's expected earnings, this great dividend is in no danger of being cut. In fact, CIBC has a history of raising its payout.

The bottom line

CIBC shares are a fantastic bargain today. Brave investors who load up when the future looks bleak should be rewarded nicely in as little as a year or two. It really isn't much more complicated than that.

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