Canadian Imperial Bank of Commerce (TSX:CM) Just Cratered 30% — Time to Buy?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), Canada's fifth-largest (and arguably riskiest) bank got pummelled on the coronavirus crisis, with shares plunging nearly 40% from the February peak to the March trough.

Shares of the battered bank stock staged a partial rally that got derailed a few weeks ago. With Canadian Imperial Bank of Commerce stock now off 37% from their 2018 all-time highs, value-conscious investors now have a chance to lock-in a colossal 7.5% dividend yield, the highest it's been since the last crisis.

Is the higher yield of Canadian Imperial Bank of Commerce worth the added risk?

Now, Canadian Imperial Bank of Commerce is cheaper than its peers in the Big Six for a very good reason. The bank doesn't exactly have the best track record for mitigating risks and navigating through severe downturns. Just have a look at how the stock fared during 2007-08, and you'll see that the bank took far longer to rebound than many of its peers.

Rising out of the Great Recession, many Canadian bank stocks posted V- or U-shaped recoveries, while Canadian Imperial Bank of Commerce had more of an L-shaped recovery.

Now, Canadian Imperial Bank of Commerce didn't have a true L-shaped recovery as some of the most vulnerable U.S.-based banks that were at ground zero in 2007-08, but as far as Canadian banks are concerned, the name is hardly the safest play for investors looking to minimize their downside amid these unprecedented times.

Just because it's cheap doesn't mean it's undervalued

Back in December 2019, or about 28% in downside ago, I urged investors to sell Canadian Imperial Bank of Commerce stock, warning that the bank was poorly structured relative to its peers and could be at risk of amplified downside amid the Canadian credit cycle downturn.

I didn't see a pandemic coming, but I wasn't at all a fan of the bank's footing headed into what I thought would be a long road to credit normalization for Canada's big banks.

"CIBC let its guard down when it grew its loan book at a fast and furious rate in hopes of catching up to its bigger brothers, and now it's paying the ultimate price," I said in a prior piece. "CIBC may be a cheap stock, but it's cheap for a very good reason. As credit continues to normalize, there could be further downside in the name as the loan book continues to crumble like a paper bag."

With the lights being dimmed on the Canadian oil patch, as a result of the one-two punch to the industry (coronavirus and the crumbling of OPEC+), many illiquid firms in Alberta's oil patch are at high risk of being wiped out. That doesn't bode well for the oil and gas (O&G) loan books of the big banks.

While Canadian Imperial Bank of Commerce doesn't have the highest exposure to the ailing O&G industry, which is effectively at ground zero amid the coronavirus pandemic, the bank is heavily exposed to domestic mortgages that could go sour in a hurry should the coronavirus trigger a Canadian housing market crash.

Given the risk of a housing meltdown in these unprecedented times, investors should demand an even larger discount on Canadian Imperial Bank of Commerce stock relative to its peers. In these dark times, valuation metrics based on earnings matter less, so I like to focus on the price-to-book ratio, which still holds amid the rapidly-deteriorating banking environment.

At 0.95 times book, Canadian Imperial Bank of Commerce isn't even as cheap as **Bank of Montreal**, which I view as a better bank despite its higher exposure to the O&G space. As such, investors may wish to take a rain check on Canadian Imperial Bank of Commerce if they're keen on bank stocks at this juncture.

Foolish takeaway

Canadian Imperial Bank of Commerce may be a worthy bet if you're enticed by the 7.5%-yielding dividend, which is completely safe. But given the slate of risks, I'd say that the name doesn't represent the best value in the banking space at this juncture.

The best bank for your buck right now, I believe, is probably Bank of Montreal, with its cheaper P/B multiple and lower exposure to uninsured domestic mortgages.

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