CIBC (TSX:CM): The New Best Bank for Your Buck?

Description

CIBC (TSX:CM)(NYSE:CM) was known as that number five underperformer of the Big Five for quite some time. Shares of the Canadian bank have typically traded at a discount to its bigger brothers, thanks in part to a lack of geographic diversification and an overexposure to Canada's frothy housing market. Not to mention that investors still had memories of the aftermath of the Great Financial Crisis and the Dot-Com Bust, which decimated CIBC stock.

Indeed, it took CIBC longer to recover than its peers from past crises, as the bank got caught with its pants down with its souring loan book. With such a track record of underperformance in crises, it's not a mystery as to why CIBC has typically trailed its peer group, often with a low single-digit price-to-earnings (P/E) multiple and a dividend yield north of the 5% mark, even under normalized conditions.

Amid this coronavirus crisis, CIBC was given a chance to prove itself to investors that it's not just an underperformer with sub-par risk management that's waiting to crumble in the face of the next downturn. To the surprise of many, CIBC wasn't the worst performer in this crisis. The company held its own rather well, and provisions for credit losses (PCLs) were pretty much in-line with its supposedly premium peers in the Big Five.

Today, CIBC stock trades at a surprising 12.1 times trailing earnings, which is considerably higher than that of CM stock's five-year historical average P/E of 10.0. Given the disruption in-store, though, it makes more sense to look at the bank's price-to-book multiple, which currently sits at 1.3, which puts it pretty much in the middle of the Big Six.

So, has CIBC finally closed that valuation gap after proving itself amid this crisis?

That's the million-dollar question. The new CIBC is a more geographically-diversified bank with its U.S. business, and the bank exhibited in-line risk management in the face of this crisis. In many priorpieces, I noted that CIBC was no longer the same dud of a bank that it was in the lead-up to pastcrises.

"Sure, CIBC will still get smacked hard come the next recession, but don't expect a repeat of 2007-08, because the bank is way more robust than it was back in mid-2008," I wrote in January 2019.

"When you look at how banks have improved themselves over the last decade, I think CIBC ought to be at or near the top of the list. Moving forward, I expect Dodig and company to create substantial value for shareholders, and that's with or without recessions thrown into the mix."

Undoubtedly, the improvements made behind the scenes have finally gotten noticed. And shares have now been rewarded on a relative basis. CIBC's earnings quality has steadily improved over the years. However, its single source of failure (mortgages) is still of concern to investors worried about the possibility of a Canadian housing market crash.

Whether the pandemic triggers a housing meltdown is anybody's guess. But given CIBC stock no longer has a relative discount, I'd say there are far better Canadian bank stocks to own other than CIBC at this juncture.

Foolish takeaway

Sure, the bank has shown to investors that it's not just another implosion waiting to happen, but I remain skeptical that CIBC can sustain a valuation that's in-line with its peers over the long run. CIBC isn't as geographically diversified as its bigger brothers, nor does it have a long-term track record of sound crisis management.

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