TFSA Investors: This High Dividend Banking Stock Is Undervalued

Description

Investors are forever looking for bargain stocks. The golden rule of investing is to buy low and sell high. But how many actually end up doing it successfully? There are thousands of stocks and it is impossible to keep track of every movement. What investors need to focus on is a bunch of stocks with strong fundamentals. If a stock is strong fundamentally and a market leader, it is likely to bounce back after a poor run.

Such a stock is one of Canada's top five banking companies. The **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has lost over 20% since September 2018. This stock has been trading flat since the start of 2019. Why has it underperformed broader markets? Why is CIBC a good buy?

CIBC has missed earnings estimates for three consecutive quarters

CIBC investors have lost wealth over the last year driven by the company's lackluster earnings performance. CIBC has missed analyst earnings estimates for three consecutive quarters. In the fiscal second quarter of 2019 ended in April, CIBC reported adjusted earnings per share (EPS) of $2.97 which was 0.7% below analyst estimates of $2.99. CIBC's earnings of $3.01 in the first quarter was also 2.3% below estimates of $3.08. It reported EPS of $3 in the fourth quarter of 2018, which was 1.3% below its estimates of $3.04.

The last time CIBC beat EPS estimates was in the third quarter of 2018 when it announced earnings of $3.08, 4.8% above estimates of $2.94. Now, all eyes will be on CIBC's upcoming third-quarter earnings expected to be released on August 22, 2019. Analysts expect the company to post revenue of $4.68 billion and EPS of $3.07.

Is CIBC targeting U.S. markets for growth?

While **TD Bank** and **Bank of Nova Scotia** have tried to focus on international expansion, CIBC has primarily looked at Canadian markets for revenue growth. However, last month CIBC agreed to acquire Milwaukee-based boutique investment bank Clearly Gull. This acquisition will give CIBC access to mid-market investment banking deals. Two years back, CIBC acquired U.S.based PrivateBank to expand into commercial banking and wealth management in the country.

CIBC will be able to expand revenue at a stellar rate if it manages to gain a strong foothold in the United States. Analysts estimate its sales to rise by 3.9% to $18.5 billion in 2019 and 3.3% to $19.13 billion in 2020. Its EPS is estimated to fall by 0.8% in 2019 and then rise over 4% to $12.61 in 2020.

CIBC also has a high dividend yield of 5.5%. When you compare this to the stock's forward price-to-earnings multiple of 8, we can see that the stock is undervalued. CIBC has increased dividend payments by an annual rate of 5% in the last 14 years. If CIBC manages to beat analyst estimates going forward, the stock will soar higher.

Investors remain concerned over CIBC's high exposure to mortgage loans. The company's earnings were impacted in the second quarter due to weak housing markets in Canada's two largest cities, Toronto and Vancouver. The last mortgage crisis bought global economies crashing down, and investors are rightly cautious this time around. However, Canada's unemployment rates are low which means the Central Bank will not raise interest rates in the near future helping banks to sustain high mortgage exposures.

This makes CIBC a solid pick for the long term.

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2. CM Stock

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