



With a New CEO at the Helm, Is Now the Time to Buy Canadian Imperial Bank of Commerce?

Description

It sure didn't take long for new **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) CEO Victor Dodig to make his mark. On Monday, his first day at the helm, Mr. Dodig unveiled a new executive leadership structure that features a so-called "Executive Committee."

But the real story is the departure of Chief Operating Officer Richard Nesbitt, a very accomplished man not only at CIBC but in Canada's financial services sector for many years. He is also departing much earlier than planned, not unlike outgoing CEO Gerry McCaughey. There is little doubt that personality conflicts played a role.

But now with the bank under new leadership, is it time to buy CIBC shares? To answer that question, one must first take a look at what Messrs. McCaughey and Nesbitt did for the bank during their tenures.

A significant de-risking

When Mr. McCaughey took over in 2005, CIBC had overextended itself in the United States through its World Markets business. And despite his best efforts to de-risk the bank, the financial crisis still ended up being a very painful experience, with \$10 billion in write-downs.

Fast-forward to today, and CIBC has ratcheted down its risk-taking even further, by focusing almost exclusively on the domestic market. In fact, last year Canadian Banking accounted for nearly two-thirds of net income. When adding in other lines of business, Canada accounted for over 80% of earnings.

So, ironically, despite a very rocky history over the past three decades, CIBC is arguably the least risky bank out of Canada's Big 5.

Where to from here?

Mr. McCaughey's strategy does have some drawbacks. The main one is a lack of growth opportunities; Canada is already fully served by CIBC and its competitors. The bank is placing a big emphasis on wealth management (it's likely no coincidence that Mr. Dodig previously headed CIBC's wealth

management business), but market share gains are very difficult without acquisitions. And acquisitions can be very expensive in today's environment.

Tellingly, CIBC has built up a 10.1% common equity tier 1 (CET1) capital ratio, the highest such ratio among the Big 5 banks. To put this into context, these banks should keep this ratio above 9% but have little need to go above 10%. CIBC simply does not have as many investment opportunities as its peers do.

There are also concerns about CIBC's concentration on Canada, with one well-respected analyst saying that this "isn't sustainable." Just one more thing for investors to keep in mind.

The verdict

CIBC does have a fairly cheap stock price — its 12.9 price/earnings multiple is below average for the Big 5 banks.

But at this point, **The Bank of Nova Scotia** ([TSX: BNS](#))([NYSE: BNS](#)) remains a better option. It has more growth opportunities and more diversification from its emerging markets exposure, and also trades at just 12.4 times earnings.

Still, there are clearly some things to like about CIBC, so it's worth keeping an eye on Mr. Dodig and how he performs.

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