

# Why Canadian Imperial Bank of Commerce's Share Price Should Be At Least 30% Higher

## Description

During the financial crisis, **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) suffered more than any other big 5 Canadian bank – its exposure to subprime mortgages in the United States led to over \$10 billion in losses.

Fast forward to today, and CIBC has transformed itself into a far safer bank. It is concentrated on plain old Canadian banking, and is very well-capitalized. Going forward, the biggest concern seems to be a lack of growth prospects.

That being said, there are some actions that new CEO Victor Dodig can take, actions that would be very positive for the bank and its share price. Below we list the top three.

### 1. Hold off on wealth management acquisitions

Mr. Dodig has pledged that CIBC will continue to grow through wealth management – the bank's target is for wealth management to account for 15% of earnings.

This comes with a major problem: it is very difficult to steal market share in wealth management, and as a result growth must usually come from acquisitions. Unfortunately, this can be very pricey, and CIBC will have to be careful not to overpay.

Luckily, Mr. Dodig also seems willing to be patient. In an interview with *Bloomberg News*, he said that "We don't feel the need or pressure to make acquisitions." Shareholders should continue to give him all the time he needs.

### 2. Improve customer service

This is also an area that Mr. Dodig has emphasized, just like his predecessor. But CIBC has a long way to go before realizing his vision.

According to JD Power, CIBC consistently ranks dead last among the big 5 Canadian banks for customer satisfaction. This is a very dangerous game to play, and exposes the bank to competitors like **Toronto-Dominion Bank**, which finishes first in that same survey, year after year.

Unfortunately, this is not a problem that is easily fixed, and requires a genuine culture shift. Thus this should be a very long term goal. But even moving CIBC from fifth to third could provide be very beneficial over time.

### 3. Jack up the dividend

At this point, CIBC has made its strategy very clear: stick to basics, and worry less about growth. So why doesn't the company raise its dividend dramatically? After all, such a move would significantly

boost its share price.

To illustrate, suppose CIBC decided to pay out 90% of its earnings to shareholders. This would result in dividends of nearly \$7.50 per share per year. And it's hard to imagine the shares yielding more than 5.5% per year (only 5 companies on the TSX 60 yield more than this). So that would result in a share price of \$135, about 30% higher than the current price.

Unlike the first items in this list, Mr. Dodig has shown no intention of raising the dividend this much. So this remains just a pipe dream. But it does show how CIBC has significant value, and if even a portion is unlocked, shareholders can see some nice gains.

That being said, the other big 5 banks have their merits too. The free report below discusses them in greater detail.

## **CATEGORY**

1. Bank Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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