Canadian Imperial Bank of Commerce's Latest Acquisition Enhances its Growth Prospects

Description

The lure of expanding beyond Canada's borders in order to improve growth and reduce dependence on the commodities-focused economy has caught the attention of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Canada's fifth-largest bank by assets has announced that it will expand its U.S. footprint through the acquisition of Chicago-based **PrivateBancorp Inc.** (NASDAQ:PVTB). This strategic move sees Canadian Imperial following in the footsteps of **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which have both established considerable U.S. businesses.

Such an acquisition could be just what is required to boost Canadian Imperial's growth prospects and unlock value for shareholders, but it does not come without risk.

Now what?

One of the greatest constraints on the growth prospects of Canadian banks is the saturated nature of the financial services market in Canada. This means there is little room for growth, and this is being exacerbated by the high levels of indebtedness of Canadian households and the economic headwinds triggered by weak commodity prices.

An obvious means of overcoming these obstacles is to expand south of the border and stake a place in the world's largest financial services market, the U.S.

In fact, because of stringent new regulatory requirements, many U.S. banks are not expanding as fast as they once were, and this in conjunction with European banks shrinking their offshore operations is creating a vacuum in the U.S. market that Canada's Big Five are more than equipped to fill.

Furthermore, unlike Canada's financial services market, the U.S. financial system is still expanding and its economy continues to grow, as it steadily recovers from the global financial crisis, providing solid growth opportunities for industry participants.

These characteristics have benefited both Bank of Montreal and Toronto-Dominion; their bottom lines have steadily grown because of a healthy bump in earnings from their U.S. operations. For the second quarter 2016, net income for Bank of Montreal's U.S. business grew by an impressive 26% year over year, while Toronto-Dominion's surged by 13%.

Canadian Imperial's acquisition of PrivateBancorp for $4.9 billion will give it a credible presence in the U.S. through the addition of its 34 offices located primarily in the U.S. Midwest and US$17.7 billion in assets to its balance sheet. This acquisition is also a natural fit for Canadian Imperial's U.S.-based wealth management business, Atlantic Trust, because it will enhance the suite of products and services available to Atlantic Trust's clients.

Nonetheless, this move does not come without risks.

Canadian Imperial's ill-fated move into the Caribbean is an indicator of what can go wrong when entering a foreign market. And there is no shortage of wreckage by the proverbial roadside from foreign banks that attempted to enter the notoriously difficult U.S. market and failed.

However, Canada's banks have shown themselves to be quite adept at operating in the U.S. and, over time, this purchase will significantly improve Canadian Imperial's growth prospects, giving its bottom line a healthy boost.

So what?

Canadian Imperial's decision should come as no surprise to investors. It's been seeking to expand its growth opportunities and reduce its dependence on Canada for some time. This acquisition will be a tremendous positive for the bank by giving it a credible U.S. operational footprint that will certainly enhance its bottom line over time.

While investors wait for this to occur, they will be rewarded by Canadian Imperial's regular dividend payment with a juicy and sustainable 5% yield.

CATEGORY

1. Bank Stocks
2. Investing

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1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:TD (The Toronto-Dominion Bank)
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