



Canadian Imperial Bank of Commerce: Buy Now Before You Miss Out

Description

It's been a busy couple of weeks for **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)).

The company made headlines by agreeing to pay \$4.9 billion for **PrivateBancorp**, a Chicago-based bank with 1,200 employees and offices stretched across 12 Midwest states. PrivateBancorp has US\$17.7 billion in total assets, US\$13.5 billion in total loans, and US\$14.5 billion in deposits.

This is a good deal for CIBC. Shares of Canada's fifth-largest bank tend to trade at a discount compared to its peers of anywhere from 10-20% on a price-to-earnings perspective. This discount persisted because investors didn't like the fact that almost all of its earnings came from Canada.

With risks like our housing bubble and low commodity prices leading some to concerns about Canada's overall economy, investors flocked to other banks with greater U.S. exposure. Diversification is a good thing, especially in the banking world.

Shares of CIBC sold off on the acquisition news, falling some 4%. Investors were concerned with the amount of dilution associated with issuing the shares needed to pay for the transaction. Additionally, the company revealed the acquisition wouldn't add to bottom-line earnings for approximately three years.

Analysts are also concerned the company overpaid for its latest prize. Over the last 12 months, PrivateBancorp earned \$2.41 per share. CIBC paid approximately 19.5 times trailing earnings, which is expensive. CIBC, in comparison, trades at just 10.6 times trailing earnings.

Ultimately, an acquiring company has to offer an attractive premium or else the target will just say no. Diversification is a good thing for CIBC.

But I'm not just bullish on the acquisition itself. Here are three more reasons for investors to get excited about CIBC.

Valuation

As previously mentioned, CIBC trades at 10.6 times trailing earnings. Peers like **Royal Bank** and **Toronto-Dominion Bank** trade at 11.6 and 12.7 times trailing earnings, respectively.

It'll take a little while, but when this deal finally starts to add to the bottom line, CIBC should trade at a similar valuation to its two more internationally diverse rivals.

Let's assume the market will give the stock a P/E ratio of 12. Based on the company only maintaining today's earnings, shares would trade at \$109 each at a 12 times price-to-earnings multiple. That's upside of more than 13%.

Dividend yield

One smart investor I know operates on a simple rule of thumb. Whenever one of Canada's six largest banks dips to a point where it yields more than 5%, he adds to his position. It's a strategy that's worked well for him.

Thanks to shares falling on the acquisition news, CIBC shares have hit this magical buy zone: it yields 5.01% as I write this. That kind of payout has to be attractive to dividend investors.

Dividend growth has been fantastic as well. A year ago CIBC paid out a quarterly dividend of \$1.09 per share. That payout has been hiked every quarter since, currently coming in at \$1.21 per share. With a payout ratio of just 53% and steady earnings growth predicted by analysts, investors can be confident the dividend will continue to grow in the future.

Improving rates

Bond yields around the world continue to hit new lows as nervous investors bid up the price of the safest assets.

This is bad news for a bank. When bond yields are low, mortgage rates go down accordingly. The spread between the two dries up, leading to lower profits.

At this point, interest rates really only have one direction to go, and that's up. It might not happen today or tomorrow, but eventually Canada's economy should recover to the point where rates start going up again. It's better to buy in today when this news isn't already priced in.

CIBC offers investors a solid dividend yield, a low price-to-earnings ratio, and the potential for capital gains when rates head higher. These factors plus its recent acquisition make shares an attractive buy. It's that simple.

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2. Dividend Stocks
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