Why Is Canadian Imperial Bank of Commerce So Cheap?

Description

Of the Big Five Canadian banks, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has long been looked to as a value play compared to its peers in the elite group of large Canadian banking institutions. On a relative basis, looking at fundamentals from a broad, high-level perspective, we can see that this is generally true.

The question investors need to ask is, why is the market attributing a higher risk profile to CIBC compared with the other banks? Could it be that the business's underlying fundamentals just aren't as good as the other banks? How about the company's growth profile and dividend yield comparatively?

CIBC looking to become a global bank

As I have written previously about other large Canadian banks, such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), the race to expand market share and grow outside Canada is real. TD has done a fantastic job of expanding into the U.S. market, now with more branches on the East Coast of the U.S. than in Canada. This process of building a retail banking network in the U.S. has been estimated to have cost TD over $17 billion.

Other Canadian banks have beaten CIBC to the punch in terms of announcing expansion strategies to the U.S. market. **Royal Bank of Canada** acquired a Los Angeles-based bank in 2015 for $5 billion, and **Bank of Montreal** has made a big splash in acquiring **General Electric's** Transportation Finance division for $13 billion in 2015 as well.

With a Trump election comes a rising tide that has lifted all boats, and this tide has carried the economy, and U.S. financial stocks in particular, much higher since November. One reason why many point to the relative discount CIBC stock receives is that investors have been looking to CIBC to present an expansion plan into the U.S., and the most recent proposed acquisition is the first step.

CIBC acquisition of PrivateBancorp evokes mixed feelings

While many investors have groaned at the purchase price agreed to be paid by CIBC to acquire the Chicago-based middle-market commercial bank, the fact that CIBC had a plan and a concrete acquisition target in mind calmed many investor worries about CIBC's increasingly high exposure to the Canadian economy — in particular, the overheated housing market and domestic debt levels.

That said, CIBC has already raised its offer price for PrivateBancorp due to changes in the value of the stock portion of the offer. Since it raised its offer on March 30, a shareholder advisory firm has indicated to investors that a deal may be less likely due to the fact that "evolving market conditions yet again have eroded the premium."

In a report released on Saturday, Institutional Shareholder Services Inc. noted that due to the potential for contagion in the Canadian housing market with recent events relating to **Home Capital Group Inc.**, PrivateBancorp may be better off as a standalone entity. ISS encouraged shareholders to reconsider the deal.

Bottom line

This acquisition is a lose-lose situation, in my opinion. It appears to me that the likelihood that CIBC finds itself between a rock and a hard place is very high, resulting in one of two likely scenarios: either CIBC will be forced to raise its offer again for PrivateBancorp to seal the deal, or CIBC will take the deal off the table. Either way, investors are unlikely to be impressed in the short term.

Stay Foolish, my friends.

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