



Canadian Imperial Bank of Commerce: Too Cheap to Ignore?

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) has always traded at a discount relative to its peers in the Big Five, but right now the stock is considerably cheaper than it normally is. The juicy 4.7% dividend yield is very intriguing, but is the stock really trading at a discount? Or are the risks too great to even think about investing in the company right now?

It's common knowledge that CIBC is not as internationally diversified as its Big Five peers, but the management team has been aggressively pushing for that much-needed U.S. exposure by sweetening the **PrivateBancorp Inc.** (NASDAQ:PVTB) deal multiple times. The bid currently stands at US\$4.9 billion, which the general public believes is very expensive. Many investors don't think the price is right, especially since it'll add very little value over the short term since the acquisition will not be accretive to CIBC's bottom line until 2020.

However, if you're a long-term investor with a horizon of five years or more, the deal makes a lot of sense. CIBC is playing the game of catch up, and this deal will eventually allow CIBC to trade at a valuation more in line with its peers. PrivateBancorp is a strong Chicago-based business that is well positioned to thrive under the Trump administration, which is expected to reduce tax rates and ease banking regulations.

In addition, PrivateBancorp's commercial lending expertise will provide a huge boost to CIBC's long-term growth. James Guyette, chairman of the board at PrivateBancorp, stated, "The combination with CIBC accelerates certain key elements of PrivateBancorp's corporate strategy while preserving the same team, the same client focus, and the same dedication to our Chicago home."

There's definitely a lot of strategic potential behind the deal, however, if the deal goes through, the reaction will certainly be mixed. If a sell-off does happen, it'll be a fantastic time to for long-term investors pick up shares of CIBC on weakness.

There are certainly setbacks right now. Institutional Shareholder Services (ISS) is advising shareholders of PrivateBancorp against the US\$4.9 billion takeover deal. I'm not sure what will happen, but if the deal does go through, you should definitely have some cash ready to make a move.

CIBC currently trades at a 9.2 price-to-earnings multiple and a 1.8 price-to-book multiple, both of which are lower than the company's five-year historical average multiples of 10.8 and 2.1, respectively.

CIBC's lack of international exposure and its large portfolio of Canadian mortgages are both real risks, but I believe they're already baked in to the current price, making this cheap stock even cheaper. I'd pick up shares regardless of what happens with the PrivateBancorp deal.

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