More U.S. Expansion Acquisitions to Come for Canadian Imperial Bank of Commerce?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) recently completed the nearly US$5 billion acquisition of PrivateBancorp in a deal that will help the bank solve one of its major problems — the lack of international diversification.

One of the biggest knocks on CIBC is its lack of exposure to markets outside Canada. The PrivateBancorp deal gives CIBC a great entry point into the U.S. market, which is expected to experience major tailwinds over the next few years under the Trump administration and its pro-business policies.

Although many pundits disliked the price CIBC paid for the deal, I believe it was well worth it for long-term investors because the door is wide open for more internal growth opportunities over the next few years.

Although the PrivateBancorp deal won't impact earnings until 2020, I believe it's possible that CIBC will see its discount relative to its Big Five peers shrink as it continues to diversify away from the Canadian market.

Victor Dodig, CEO of CIBC, stated, "PrivateBancorp has always been a part of [CIBC's] medium- to long-term strategy," and that the management team would be busy integrating the two companies over the course of the next few years, but would be open to making U.S. wealth acquisitions if attractive opportunities present themselves.

More U.S. acquisitions on the horizon?

According to Mr. Dodig, CIBC has the long-term goal of having the U.S. banking segment account for approximately 25% of earnings.

Going forward, CIBC is likely to be active with smaller "tuck-in wealth acquisitions" in the U.S., which will slowly make CIBC a more robust bank with a focus on U.S. expansion like some of its Big Five peers, such as Bank of Montreal (TSX:BMO)(NYSE:BMO) or Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

), which are way ahead in the game.

CIBC is still playing catch-up when it comes to U.S. expansion, but it’s comforting to know that the bank is heading in the right direction and there’s reason to believe that the valuation gap may be eliminated several years down the road as the company reaches its goal of becoming the “best-in-class commercial and wealth management bank.”

Takeaway

CIBC is a cheap bank for many reasons, but the management team has taken an active approach to solving its shortcomings, and I think the general public is way too pessimistic about CIBC’s current state and its plans.

In the short term, sure, the PrivateBancorp deal is nothing to write home about, especially considering the number of times CIBC needed to sweeten the pot. However, if you take a look at the big picture, the PrivateBancorp deal is a great fit for CIBC and will make the bank a top-tier dividend-growth play for many years to come.

CIBC isn’t just that Canadian bank that’s overexposed to the domestic market anymore. The bank is reinventing itself, and I believe it will be very successful in doing so in the coming years.

Prudent investors should pick up shares of CIBC while they’re dirt cheap, because they won’t be this cheap forever.

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