



Canadian Imperial Bank of Commerce Should Buy This California Bank Next

Description

Now that PrivateBancorp is a subsidiary of **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), shareholders can expect future expansion south of the border — and that's a good thing.

As Fool.ca's Joey Frenette [stated](#) June 26, the PrivateBancorp deal helps diversify CIBC's business outside Canada — a shortcoming that may have held back the bank's share price in recent years, despite having some of the best financial metrics of the Big Six.

CIBC, along with **National Bank of Canada**, are my two favourite Canadian bank stocks. This deal certainly cements my confidence in Victor Dodig's plan to make CIBC Canada's strongest bank.

The funny thing is, I'm not a fan of banks or bankers, but I do like his vision for the future.

U.S. expansion

While Dodig's statement that the bank will focus on organic growth for the foreseeable future is disheartening, I'm encouraged by his overarching comments about its future growth plans in the U.S.

"This is really a growth story," Dodig said in an interview June 23. "Growth in earnings largely by deeper and more client relationships in the U.S."

Currently, the bank generates 5% of its wealth management income in the U.S. The PrivateBancorp deal brings that to 10%. Ultimately, CIBC wants to produce 25% of its wealth management profits from its U.S. operations.

While the bank will have a significant presence in the Chicago area — the Midwest city ranks 10th on the 2017 Knight Frank City Wealth Index compared to 22nd for Toronto — it still doesn't have a big California presence, a market that's critical to success in the U.S.

California bound

One of my favourite U.S. banks is **SVB Financial Group** ([NASDAQ:SIVB](#)), which is based in Santa

Clara, California, and operates Silicon Valley Bank, a financial institution that's been helping technology entrepreneurs grow since 1983.

SIVB has US\$45 billion in assets, US\$20 billion in loans, and US\$86 billion in total client deposits and assets under management. Its return on equity, despite a low interest rate environment, has routinely been above 11% in recent years, much higher than its peer group, which used to include City National before it was acquired by **Royal Bank of Canada** in 2016.

If you thought PrivateBancorp was expensive, SVB Financial would be far harder to acquire given its market cap is double that of CIBC's latest conquest.

However, sometimes you have to pay up for quality. If PrivateBancorp is good, SVB Financial is great.

Bottom line

Obviously, a deal like this isn't going to happen right away because Dodig and company want to integrate its latest purchase before moving on to another. It makes sense given its previous foray into the U.S. didn't go very well.

If you invest in U.S. banks, you'll want to have a look at SVB Financial, ranked by *Forbes* magazine as one of America's top 100 banks in 2017.

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washworth

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