



Why Canadian Imperial Bank of Commerce Is a Great Investment Opportunity

Description

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) completed a US\$5 billion deal to acquire Chicago-based PrivateBancorp this past week.

What does this deal mean?

The US\$5 billion deal was paid for in US\$2.4 billion in cash, and in 32.3 million CIBC shares based on the value that CIBC traded at upon the deal being closed. PrivateBancorp shareholders will receive US\$27.20 in cash as well as 0.4176 CIBC shares for each share of PrivateBancorp held.

CIBC twice improved the offer to PrivateBancorp before the current deal was approved back in May.

For CIBC, this is a major expansion into the U.S. market, and the first one since CIBC exited the U.S. market over a decade ago. CIBC has limited exposure to the U.S. now with nearly 5% of earnings primarily through wealth management operations.

Through this acquisition, CIBC expects that figure to double to 10%, while significantly increasing operations in the U.S. Over time, CEO Victor Dodig hopes to generate a quarter of CIBC's profit from U.S. markets.

The U.S. market is becoming increasingly attractive for investors, especially as the pro-business administration in Washington continues to roll back regulations such as the Dodd-Frank Act. By comparison, lenders in Canada are growing increasingly concerned with the condition of the housing market.

PrivateBank, which is the name under which PrivateBancorp operates, has 36 locations across 13 states, 21 of which are in Chicago. The bank has US\$20.4 billion in assets and maintains a presence in other cities such as Cleveland, Miami, and Kansas City.

CIBC's other current venture in the U.S. is CIBC Atlantic trust; it has 14 offices and is primarily a private wealth manager for clients with a higher net-worth. Atlantic Trust was purchased back in 2014, and some of Atlantic Trust's locations overlap with PrivateBank.

With the transaction now closed, PrivateBank will begin the process of integrating operations with CIBC.

Is CIBC a good investment?

CIBC is the fifth biggest of the big banks and has the smallest international footprint of any of the other banks, which opens the bank to a little more risk at home, especially as the extent of the overheating housing market continues to unfold. The PrivateBancorp deal alleviates this concern somewhat, and given the direction of CIBC, this deal could be the first of many.

One area where CIBC is impressive is with respect to its dividend. CIBC offers investors a quarterly dividend in the amount of \$1.27 per share, which results in a very appetizing 4.82% yield at the current stock price. This factor alone may be enough for some investors to consider buying the company.

From a value perspective, CIBC has a P/E of just 8.77, which is lower than many of the other banks. From an earnings perspective, CIBC, like the other big banks, continues to outperform with each passing quarter.

In my opinion, CIBC represents a great investment opportunity for those investors looking to diversify their portfolios with bank stock that holds plenty of long-term growth potential and that can provide a great dividend.

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3. Investing

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