Here’s Why Canadian Imperial Bank of Commerce Was So Quick With its Latest U.S. Deal

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has been traded at a significant discount to its Big Five peers for a really long time now. One of the main reasons for this is because CIBC is overexposed domestically without the magnitude of international diversification its Big Five peers have.

CIBC is firing on all cylinders with its U.S. expansion plan

CIBC has made a huge splash in the U.S. this year with its acquisition of the Chicago-based PrivateBancorp and the smaller Geneva Advisors acquisition which followed shortly after. The US$200 million Geneva Advisors deal surprised many analysts since it has just been a few weeks since the PrivateBancorp deal was completed, but the timing of this deal is no surprise to me.

Here’s why.

In a piece published last month, I mentioned that smaller U.S. tuck-in acquisitions could be on the horizon and that CIBC was serious about catching up with its bigger brothers **Toronto-Dominion Bank** and **Bank of Montreal**, both of which already have impressive U.S. businesses that are miles ahead of CIBC.

Sure, CIBC is late to the party when it comes to U.S. expansion, but it’s better to be late than to miss it completely. TD Bank and Bank of Montreal had a huge head start when it came to U.S. expansion, but it really doesn’t make sense to compare these banks to CIBC, especially since CIBC is substantially cheaper. CIBC is running its own race and over the course of the long term. I believe the bank will eventually close the valuation gap as its U.S. business continues to grow.

CIBC has the ambitious long-term goal of having its U.S. business account for about 25% of its earnings. I believe this is a realistic long-term goal, but CIBC is going to need to start sprinting if it plans on benefiting from a strengthened U.S. economy under Trump’s pro-growth agenda.

Although the PrivateBancorp deal grants CIBC a much-needed entry point into the U.S., a lot more deals need to be done if CIBC is serious about catching up. This means making deals when it makes sense, regardless of the timing. Sure, a lot of integration work needs to be done with the PrivateBancorp deal, but that doesn't mean the door should be closed on smaller acquisitions that will complement PrivateBancorp.

Victor Dodig, CEO of CIBC, stated that he was open to making U.S. acquisitions if such opportunities presented themselves. An opportunity in Geneva Advisors presented itself, and the bank clearly wasted no time in making the deal happen.

Bottom line

Going forward, expect more small-scale "complementary acquisitions." CIBC is going all out when it comes to U.S. growth, and I believe the valuation gap between CIBC and other Big Five banks will close faster than many of us think.

The Private Bancorp deal was not just a deal to impress shareholders; in fact, the general public wasn't a fan of the price CIBC paid. The deal is a part of the company's long-term plan of becoming a more robust bank, and I believe patient shareholders will be rewarded once the company's efforts come to fruition in the years ahead.

Prudent long-term investors looking for a solid, growing dividend should consider loading up on shares today while they're cheap because they won't remain this cheap forever.

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Date
2025/09/13
Date Created
2017/07/12
Author
joefrenette