Are Canadian Imperial Bank of Commerce’s Baby Steps in the U.S. Enough?

Description

The reasons for the decline in the share price of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) over the past four months are convoluted and interconnected. One key weakness of the Big Six Canadian bank which has been focused on by analysts for some time now is the lack of U.S. exposure in CIBC’s asset mix.

CIBC has traditionally been a bank more heavily focused on the Canadian consumer with the vast majority of the company’s assets inside Canada. The recent purchase of Chicago-based PrivateBancorp (recently approved by shareholders) and newly announced deal with Geneva Advisors (also out of Chicago) has spurred some interest that CIBC may be able to climb out of its funk and catch up to its peers in terms of valuation.

I’m going to discuss what the most recent deals mean for CIBC, and why other banks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) may still have the long-term edge on CIBC.

Short-term vs. long-term expectations

I have stated in previous articles that CIBC may be a solid short-term play based on movements in interest rates over the coming quarters, and taking the 4.8% dividend while waiting for the rebound to take shape may not be such a bad thing. On a valuation basis, CIBC remains significantly undervalued compared to its peers and thus presents a larger margin of safety with respect to how far its share price could potentially fall in worst-case scenarios, such as a housing crisis or recession.

That said, CIBC has continued to lag behind its peers in terms of valuation multiples for decades, largely due to the fact that CIBC carries a different business model than its peers. While geographic diversification has remained a top priority for other Canadian banks such as TD, which have been aggressively opening U.S. branches for years (organically), nearly every other Canadian bank is present in the U.S. market in a much bigger way than CIBC.

While I agree that these acquisitions are steps in the right direction and may indicate that further acquisitions are on the horizon, I would invite investors to dig into the numbers and take a look at just how big the investments are compared to CIBC’s current business (hint: the market capitalization of

Geneva Advisors amounts to approximately 0.4% of CIBC's market capitalization).

I would also encourage investors to consider the fact that CIBC is likely to continue to overpay for assets in the U.S. CIBC largely missed opportunities to pick up dirt-cheap assets during the Financial Crisis 10 years ago when other banks were going gangbusters, buying up assets and launching new retail locations organically. CIBC will be acquiring U.S. assets at a much higher base cost than its competitors, and therefore, for investors looking for U.S. banking exposure and long-term profitability within the Canadian banking system, I would encourage those investors to look away from CIBC and toward better options, such as TD.

Stay Foolish, my friends.

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chrismacdonald