



## Why Canadian Imperial Bank of Commerce Might Be the Best Bank Stock to Buy in 2018

### Description

**Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) could present the greatest growth opportunity of all of Canada's major banks next year. Bank stocks as a whole typically do not offer investors with a lot of short-term growth, but that might not be the case when it comes to CIBC.

### Comparing the performance of the big banks

Year to date, CIBC's stock has performed well with its share price improving 9% in 2017 and only falling behind **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), which have seen returns of 10% and 12%, respectively.

Even **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), which has had a strong 2017, has seen its share price rise 8.5% and lag behind CIBC's returns.

However, if we look at the past five years, then CIBC's returns of 46% are only ahead of Bank of Nova Scotia, which saw its share price rise less than 45% during that time. A big reason for CIBC's lagging performance is that the bank has not been as diversified as its peers and is heavily exposed to the Canadian market.

### Acquisition of U.S. bank will help diversify and grow CIBC's sales

The company has heard those concerns, and earlier this year it acquired PrivateBancorp Inc., which will provide the company with a significant opportunity to grow south of the border. The bank's CEO, Victor Dodig, stated clearly that for CIBC, "Our goal is to diversify outside of Canada."

The expectation is that by 2020 the bank will see as much as 17% of its earnings come from U.S. operations, which is a significant increase from the 9% of profits that segment contributed in 2017.

Not only will development of its U.S. operations help the bank grow sales, but it will help to diversify CIBC and make it less exposed to a single economy.

## Mortgage rules could put a damper on next year's performance

Although CIBC had a [strong Q4](#), one reason that the bank needs to find growth is that next year mortgages in Canada will be subject to [more difficult stress tests](#), and that is likely going to result in softer top line.

This makes it all the more important for the bank to diversify its operations and be less dependent on conditions that are specific to the Canadian market.

## Does this make CIBC a buy?

The one big drawback against CIBC's stock has been that it hasn't been as diverse as the other big banks, and it looks like the company is finally making significant strides to change that.

It will still be significantly impacted by what happens in Canada, as will its competitors, but now it will have the benefit of capitalizing on a strong U.S. economy as well.

For bank stocks, the biggest driver of growth is often the company's profitability. Banks don't trade at high multiples, and CIBC's stock is normally priced at less than 11 times its earnings, which is less than its peers, which normally trade at multiples between 12 and 13.

As we see CIBC continue to grow its operations, not only will profits grow and share price rise as a result, but the stock itself will trade at a closer multiple to the other big banks, giving the share price plenty of upside.

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