CIBC'S (TSX:CM) $6.6bn Bank Bet Faces Headwinds as Mexico Supersedes Canada

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) eventually opted to penetrate the U.S. wealth management business, starting with the acquisition less than five years ago of Atlantic Trust Group LLC.

It then bought in June 2017 the Chicago-based wealth management company PrivateBancorp and its subsidiary The PrivateBank. Rebranded the following September as CIBC Private Wealth Management, the U.S. business unit had garnered assets of US$52 billion by June through its 36 outlets in 19 cities. Canada's fifth-largest bank now wants to grow the segment twofold over the next four years to $100 billion in assets under management.

Chief Executive Victor Dodig said earlier this month in a televised interview that "CIBC wants to be the bank of choice for Canadian companies doing business in the U.S." Yet future capital and trade flows between the two nations could decline after the Trump administration struck a trade deal with Mexico before its northern partner. Negotiations continue as the three-nation NAFTA deal is set to be drastically overhauled.

Elusive U.S.-Canada trade deal

The Toronto-based lender forked out US$5 billion for PrivateBancorp, having agreed in July 2017 to pay more than US$180 million for Chicago-based private wealth management Geneva Advisors in a bet on the U.S. market. The company believes the acquisitions have met or exceeded earnings expectations over the last four quarters, helped by Trump's tax cuts.

However, commercial banking and wealth management in the U.S. contributed a mere $200 million to the consolidated $4.7 billion in earnings last year, with PrivateBancorp being on the books for less than six months.

Management says the bank will grow organically in the future, although it might consider looking into acquisitions of less than US$400 million in the wealth management business. Through its 11 million clients, the 150-year-old bank seeks to generate growth of about 10% in deposits as well as loans. Personal and small business banking in Canada accounted for more than half of earnings in 2017, bringing in $2.4 billion. Corporate banking and wealth management generated $1.1 billion, on par with the capital markets segment.

Dividends, interest rates

As profits jumped 10% last year, the board of directors has so far this year voted twice to raise dividends, although for less than 2.4%. With the $1.36-per-share fourth-quarter dividend declared on Aug. 23, the stock is yielding 4.4%.

There are many reasons to believe that the stock will break through the resistance of $123.99 touched on Jan. 5. In addition to the increasing dividend, the bank has also committed on May 31 to a 12-month, nine-million shares stock-buyback plan starting June 4. The program replaces the one that lapsed March 13 and, of which, none of the eight million shares were bought back and cancelled.

On the economic front, the current environment seems to be conducive for bank stocks, with the central bank set to shift to a more restrictive monetary policy. CIBC has already raised its prime lending rate twice this year, adding 25 bps on Jan. 17 to the interest it charges the least-risky clients at 3.45%, before raising the benchmark again to 3.70% on July 11.

Next week, the shares will trade without the right to the dividend on Sept. 27. Will CIBC beat the Street when it reports on Nov. 29 earnings for the fourth-quarter ending Oct. 31? Based on its track record compiled by Zacks Investment Research of 11 consecutive beats, one cannot rule it out.

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