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CIBC keeps sights on U.S. opportunities, boosts dividend again

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Bank raises payout by three cents to $1.06 a share, adding to a two-day rally for Canadian bank stocks

Canadian Imperial Bank of Commerce says it continues to look for an acquisition in the United States, even as the bank diverted cash to shareholders with an unexpected increase to its quarterly dividend.

"While we have been actively assessing opportunities, we have not identified anything that meets our acquisition criteria," said Victor Dodig, CIBC's president and chief executive, in a conference call following the release of the bank's first-quarter results.

CIBC raised its quarterly dividend to $1.06 a share, up three cents, which took some observers by surprise given the bank's oft-stated plan of expanding its U.S. operations with an acquisition costing as much as $2-billion.

The bank raised its dividend in the previous quarter, also by three cents a share.

Mr. Dodig said U.S. expansion is still the plan, but that the bank will be patient and disciplined about valuation, after passing on some opportunities.

A recent Wall Street Journal article, citing unnamed sources, alleged that Canadian regulators are standing in the way of a potential CIBC acquisition due to risk management concerns.

Laura Dottori-Attanasio, CIBC's chief risk officer, said she is "quite comfortable with the risks that we are taking."

Mr. Dodig added that the bank is under no restrictions when it comes to growth.

"The only restrictions we are under are our own self-imposed restrictions to be very disciplined," he said. "In any acquisition, we would have to get the approval from regulators, just as every other bank would."

He also said that the dividend boost is consistent with CIBC's goal of raising its payout ratio toward the high end of a range between 40 per cent and 50 per cent, should the economic environment continue to drive consistent earnings.

CIBC reported better-than-expected earnings in the first quarter, after accounting for extraordinary items that included the earlier sale of half of its Aeroplan credit-card portfolio.

The bank said that its first quarter net income was $923-million, down from nearly $1.2-billion in the same period last year.

However, the Aeroplan sale last year boosted earnings by $123-million in the first quarter of 2014, making year-over-year comparisons difficult.

After accounting for the transaction and other extraordinary items, CIBC said that its adjusted income in the first quarter was $956-million, up slightly from $951-million last year and well ahead of analysts' expectations for earnings of $907-million.

On a per-share basis, reported net earnings were $2.28. But using adjusted figures, earnings rose to a more substantial $2.36 a share, or 11 cents above expectations, driving a relatively upbeat assessment from analysts.

The shares rose 3.26 per cent, to $95.23, continuing a two-day rally for Canadian bank stocks that began after Royal Bank of Canada reported strong results on Wednesday. The Big Banks' reporting season wraps up on Tuesday with Bank of Nova Scotia's results.

"In the quarter, CIBC's core businesses delivered solid results despite a challenging macroeconomic environment," Mr. Dodig said in a statement, repeating a cautious outlook that a number of other bank executives have delivered this week in acknowledgment of a slowing Canadian economy and low oil prices.

The bank took an $85-million charge related to upgrading its technology and branch operations, which led to recent layoffs representing about 1 per cent of the bank's work force.

Trading revenue, which can be volatile, was part of the reason behind the better-than-expected results. As well, the bank took lower-than-expected provisions against bad loans. Neither can be counted on to drive earnings next quarter.

However, CIBC also showed strength in more fundamental areas of its business: Retail and business income rose 13 per cent, after accounting for the Aeroplan sale; income from wealth management rose 12 per cent and wholesale banking income rose 4 per cent.