

CANADIAN IMPERIAL BANK OF COMMERCE

(TSX: CM)

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eResearch Corporation is pleased to provide a **Catalyst** report on:
CANADIAN IMPERIAL BANK OF COMMERCE.

Bob Weir, CFA
Managing Director, Research Services, **eResearch Corporation**

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CIBC (CM - TSX \$81.50)

Recommendation: BUY
Target Price (1 Year): C\$91.00
Prior: C\$91.00
Total Return (1 Year): 15.9%
Risk: Low

Market Data

Current Price \$81.50
 52-Wk Range \$65.05-85.56
 Mkt. Cap. (mm) \$32,400
 Dividend \$3.48
 Yield 4.3%

Financial Data

Fiscal Y/E October 31
 Shares O/S (mm) 397
 BVPS \$33.47
 P/BVPS 2.4x
 Capital Ratio Tier 1 14.7%
 Total Assets (bill) \$384.1
 Adj. Cash ROE Annual 21.6%

Estimates (f.d.)

Year	2010A	2011E	2012E
EPS Cash	\$6.45	\$7.45	\$8.00
Prior EPS Cash	-	\$7.50	\$8.00

Valuations

Year	2010A	2011E	2012E
P/E Mult. Cash	12.6x	10.9x	10.2x

Canadian Imperial Bank of Commerce



Chart Courtesy Big Charts

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Notes:
 All figures in Canadian dollars, unless otherwise specified.
 * Under Review

Please see the final pages of this document for important disclosure information.

Q2/11 Operating Earnings – Slightly Below Expectations Retail Banking & Wealth Management Earnings Remained Solid Loan Losses Declined More Than Expected

Conclusion: BUY – Target Maintained at \$91.00

Canadian Imperial Bank of Commerce (CM) reported cash net income per share of \$1.61. However, adjusted cash operating EPS was \$1.74, excluding a \$0.13 per share loss from the structured credit run-off business. The adjusted EPS represented an increase of 19% Y/Y and was \$0.06 below our estimate and that of consensus. Adjusted ROE was 21.6% in the quarter versus 23.9% last quarter. The Tier 1 capital ratio increased to 14.7%, up from 14.3% last quarter and well up from 13.7% in the same period last year.

The quarter was driven in part by a lower than expected Provision for Credit Loss (PCL) offset by lower earnings from FirstCaribbean. Retail earnings increased 13% Y/Y and benefited from the lower PCL in the quarter. In addition, Retail was helped by a 15% Y/Y increase in Wealth Management revenues driven by higher trading volumes and higher equity markets. Wholesale banking reported a lower quarter driven by lower new equity issue and Merchant Banking revenues.

For fiscal 2011, we have lowered our EPS estimate to \$7.45 from \$7.50. This estimate accounts for the impact of a slower expected revenue growth environment and a decline in PCL to \$0.9 billion from \$1.2 billion last year. Our EPS forecast for fiscal 2012 has been maintained at \$8.00 which would imply a gain of 7% over 2011 and an ROE of about 22.0%. Our 2012 estimate assumes a flattening of PCL at about \$0.9 billion and a sustained high level of capital.

We continue not to expect any dividend increases over the next 6 months as the payout ratios of 47% and 44% on our fiscal 2011 and 2012 EPS forecasts respectively are mid-range of management's target payout ratio of 40% to 50%. We expect management will now target the lower end of the range before considering a dividend increase. Based on our earnings outlook, we could expect small dividend increases to be possible in fiscal 2012.

We have maintained our BUY recommendation. Our 12-month share price target has been maintained at \$91.00.

Valuation

Management continues to be successful in reducing its exposures on toxic investments (structured products portfolio). We also acknowledge that management has been quite successful in refocusing the bank on its retail and wealth management operations and successfully increasing profitability. Although future growth may be challenging, the Bank's risk profile has been lowered dramatically and, despite higher capital requirements, the ROE is expected to now remain above 22%.

Our share price target of \$91.00 supports a valuation of 11.4x on our 2012 EPS forecast which represents a 5% discount to the bank average.

Q2/11 Items of Note – Negative After-tax Impact of \$0.13 per Share

- Losses of \$70 million or \$50 million after-tax or negative \$0.13 per share on structured credit run-off activities.

Impact of Basel III – Forecast Ratio of 7.8%

Management is reviewing its options regarding its high level of non-qualifying capital instruments which will no longer qualify as capital beginning January 1, 2013 under Basel III and will, therefore,

be subject to a 10% phase-out per year beginning in 2013. These capital instruments include various preferred shares and subordinated debt instruments. Management indicated that early redemption options are being considered and the terms that are public for each issue are the likely order that each instrument will be dealt with. Management specifically focused on several series of preferred shares (Series 26, 27 and 29) that CM will apply to convert these Convertible Preferred shares to be treated as non-viability contingent capital (NVCC) for purposes of determining non-common regulatory capital under Basel III. These shares may still be redeemed. CM expects to exercise its regulatory event redemption rights in fiscal 2022 in respect of the \$300 million 12.25% CIBC Tier 1 Notes – Series B due June 30, 2108 issued by CIBC Capital Trust.

Credit Losses Decline Significantly in The Quarter

PCL in Q2/11 declined 37% Y/Y and 7% from \$226 million reported last quarter. At \$210 million, PCL was 20% below our estimate of \$250 million. The decline was driven by lower consumer losses and the favourable impact of credit card securitization that took place last quarter. CM has the largest credit card portfolio of the Canadian banks including the recent acquisition of \$2.1 billion of credit card balances from Citibank's Canadian MasterCard business. Credit card losses continue to represent the majority of the total losses at the Bank. The credit card loss ratio increased in the quarter to about 4.80% from approximately 4.70% last quarter. Management indicated that losses on the MasterCard portfolio increased in the quarter but that the increase was within the tolerance range expected.

For fiscal 2011, we have revised our PCL estimate lower to \$0.9 billion from \$1.0 billion as the general level of losses overall has been lower than expected. Our 2011 PCL estimate represents a 25% Y/Y decrease over fiscal 2010. For fiscal 2012, we expect that PCL will stall out near \$0.9 billion.

Impaired Loans Stable

Gross impaired loans (GIL) decreased 11% Y/Y and 5% sequentially to \$1.74 billion. This reported level was basically in line with our forecast. New impaired loan formations were \$418 million, down from \$436 million last quarter and several loans returned to performing status. We have lowered our GIL forecast for fiscal 2011 to \$1.7 billion from \$1.8 billion. For fiscal 2012, we expect a further, albeit modest, reduction in GIL to \$1.5 billion.

Other Quarterly Highlights

- **CM reported net income of \$678 million this quarter.** Excluding the noted items as discussed above, adjusted net income for Q2/11 was \$728 million. This compared with adjusted earnings of \$811 million last quarter. Revenue decreased 1% Y/Y while non-interest expenses increased 7% Y/Y. The quarter saw lower retail interest spreads driven by a very competitive lending in Canada.
- **Retail banking reported adjusted cash net income of \$553 million, up 13% Y/Y** but down 12% sequentially. The largest impact on earnings in the quarter was a 16% Y/Y decline in PCL. The decline was driven by lower consumer losses and the favourable impact of credit card securitization that took place last quarter. Revenues increased 5% Y/Y driven by the MasterCard acquisition and higher Wealth Management revenues. Non-interest expenses were slightly higher than expected and increased by 7% Y/Y. Loan growth slowed as volumes increased by 6% Y/Y. Net interest margins declined 6 bps Y/Y and sequentially as commercial lending spreads deteriorated. FirstCaribbean revenues declined 30% Y/Y due to lower security gains and the stronger C\$.
- **Wealth Management revenue (included in retail banking) increased 15% Y/Y** and 1% sequentially to \$397 million driven largely by higher equity markets and higher trading volumes. Retail brokerage revenue increased 15% Y/Y and was flat sequentially. Asset management revenue was up 11% Y/Y and 3% sequentially driven in part by higher Assets Under Management (AUM) which increased by 10% Y/Y and 2% sequentially.
- **Wholesale banking reported net income of \$162 million, excluding the Items of Note.** This was down 14% Y/Y and 12% sequentially. Underwriting and advisory fees were reported at \$128 million, up 47% Y/Y but down 21% sequentially. Capital Markets reported revenues of \$301 million, up 9% Y/Y and flat sequentially. Capital Markets revenue was hurt by lower equity issue and lower merchant banking revenues.
- **Security gains were lower this quarter at \$40 million or \$0.07 per share** versus \$64 million or \$0.11 per share in the prior quarter. The security surplus increased to \$447 million from \$430 million last quarter.
- **Securitization revenue was strong in the quarter** at \$270 million, over double the prior year and up 25% sequentially.

Recent Events

Effective November 1, 2010, CIBC Mellon Trust Company (CMT), a 50/50 joint venture between CM and The Bank of New York Mellon, sold its Issuer Services business. As a result of the sale, CM recorded an after-tax gain of \$37 million which is net of estimated claw-backs and post-closing adjustments that will be settled effective November 1, 2011.

On July 20, 2010, CM announced the acquisition of \$2.1 billion of credit card balances from Citibank's Canadian MasterCard business. This makes CM the largest dual issuer of Visa and MasterCard products in Canada.

Definition of Risk Rankings

Low: Low financial and operational risk, high predictability of financial results with stronger than average balance sheet and strong free cash flows. Company may pay substantial dividends or have an active share repurchase program.

Medium: Moderate financial and operational risk, moderate predictability of financial results, positive free cash flows and may or may not pay a dividend.

High: High financial and/or operational risk, low predictability of financial results. Limited financial history, negative free cash flows, adequate working capital and no dividends.

Definition of Research Ratings

The Catalyst research recommendation structure consists of the following categories:

Buy: The stock's total return, including dividends paid, is expected to exceed a minimum of 15% on a risk-adjusted basis, over the next 12 months.

Hold: The stock's total return, including dividends paid, is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

Sell: The stock's total return, including dividends paid, is expected to be negative over the next 12 months.

Speculative: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

Note: Analysts have discretion within 500 basis points of the upper and lower limit of each rating to maintain the recommendation.

Analyst Certification

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