

Update Report

March 3, 2008

CIBC
 (CM-TSX \$67.95)

Recommendation

BUY

Risk

Low

Target Price

\$73.00

Price

\$67.95

52-Week Range

\$64.25 - \$107.45

% Below High

-36.8%

% Above Low

5.8%

Shares O/S

381 million

Market Cap

\$26 billion

Average Daily Volume

2,093,000

Year-End

October 31

C\$	EPS	& Mult
2007a	\$8.82	7.7x
2008a	\$7.70	8.8x
2009e	\$8.50	8.0x
Book Value	\$32.76	2.1x

	Amount	Yield
Dividend	\$2.28	5.1%

Analysts

Robin Cornwell



Data Source: www.BigCharts.com

**UNDERLYING Q1/08 OPERATING EARNINGS STEADY
 CREDIT RISK REMAINS HIGH &
 MORE LARGE WRITE-DOWNS LIKELY
 INVESTORS SHOULD AVOID THIS BANK**

CONCLUSION: SELL MAINTAINED - TARGET MAINTAINED AT \$73.00

Canadian Imperial Bank of Commerce (CM) reported cash EPS loss of \$4.36. The loss included (i) write-downs of \$3.4 billion (\$2.3 billion after-tax or \$6.68 per share) on sub-prime related issues, (ii) \$108 million loss on the sale of its U.S. investment banking business (\$64 million after-tax or \$0.19 per share) and (iii) tax gains and credit derivative gains of \$217 million (\$171 million after-tax of \$0.51 per share).

Adjusted operating EPS, excluding the above, would have been \$2.02 or about \$0.05 above our estimate but about \$0.07 below the consensus estimate. Overshadowing the quarter was the write-down related to sub-prime issues of \$3.4 billion which was about \$1.0 billion higher than CM had previously indicated. The total sub-prime write-down over the last six months has now increased to \$4.2 billion. Earnings this quarter were driven by good retail banking income but hurt by lower merchant banking revenues. Adjusted cash operating ROE was 24.0% down from 27.3% last quarter. Tier 1 capital ratio under the new Basil II measurement was 11.4%.

We conclude that the risk at CIBC remains high in that the sub-prime situation in the U.S. (market for CDO's and SIV's) will continue to deteriorate over the next 6 to 12 months. Further potential losses for CIBC could still be in the US\$2 billion range. Our 2008 EPS estimate was previously lowered to \$7.70 from \$8.95 reflecting the dilution from the recent equity issue (as noted below) and lower earnings due to generally lower revenue expectations.

For 2009 our EPS estimate has been lowered to \$8.50. Furthermore, we do not expect much in the way of dividend increases or share buybacks over the next 12 months. Going forward management must focus on improving credit quality, risk management and restoring investor confidence. This may prove even more difficult for CM now and will certainly justify a sub-prime valuation to that of BNS, TD and RY.

Valuation

We believe that CIBC continues to represent significantly higher risks than any of the other big four and will continue to warrant a P/E multiple approximating a 20% discount to the bank average and a discount of over 30% to the average of BNS, RY & TD. Consequently we have maintained our 12 month share price target at \$73.00. Our estimated 12-month total return for CIBC is 12.5% and we have maintained our recommendation as a Sell. Investors in bank stocks should continue to focus on investing in BNS, TD and RY.

EPS Adjustments Include \$463 Million Sub-Prime Writedown

The numerous non-operating adjustments this quarter are summarized below with a total a negative impact of \$6.36 per share in Q1/08 which would increase the reported EPS loss of \$4.36 by that amount to an adjusted profit of \$2.02.

1. Write-down on ACA (monoline insurer) insurance of \$2.28 billion or \$1.54 billion after-tax (\$4.51 per share).
2. Write-down on insures other than ACA of \$626 million or \$422 million after-tax (\$1.24 per share).
3. Write-down of \$463 million (\$316 million after-tax or \$0.93 per share) on its Collateralized Debt Obligations (CDO) and Residential Mortgaged Backed Securities (RMBS) positions. Last quarter the bank took a loss of \$290 million (\$190 million after-tax or negative \$0.56 per share).
4. Loss of \$108 million (\$64 million after-tax or \$0.19 per share) on the sale of some of its U.S. business to Oppenheimer.
5. A gain from significant tax related items of \$56 million or \$0.17 per share.
6. Mark-to-market of credit derivatives gain of \$171 million (\$115 million after-tax or positive \$0.34 per share).

CM Exposure To Sub-Prime Remains High At US\$5.1 Billion

The face value of CM's exposure to CDO/RMBS was stated at US\$7.9 billion as at the end of the quarter down from almost \$US10.0 billion. Of this exposure a reserve of \$2.8 billion is in place leaving the remaining exposure at \$5.1 billion of which CM has monoline protection of \$5.0 billion still in place. If all remaining monoline insurers failed to deliver, CM would still have over \$5 billion of potential write-downs. Management indicated that CM's Tier 1 capital ratios would decline to 9.2% from 11.4% if \$4.0 billion of further losses were recognized. This level of Tier 1 capital would still be well above management's minimum target of 8.5% and above the regulatory minimum of 7.0%.

Other Quarterly Highlights

- Retail banking reported cash net income up 15% Y/Y to \$657 million. Strong loan growth in mortgages (up 9% Y/Y) and credit card volumes (up 24% Y/Y) were experienced. Personal loan volumes increased modestly as the loan mix was shifted to more secured lending. Retail brokerage revenue was down 10% Y/Y. Spreads increased 3bp sequentially and 4 bp Y/Y. PCL was \$155 million up from \$150 million in the previous quarter and up 5% Y/Y.
- Mutual fund revenue decreased 3% Q/Q to \$212 million and flat Y/Y. Mutual fund AUM increased 4% Y/Y to \$50 billion. Asset management net income decreased 2% Y/Y and sequentially to \$120 million.
- CIBC World Markets was a disaster given that most of the write-downs were in this group. The net loss including all write-offs on sub-prime was \$2.1 billion. On an operating basis net income was relatively weak at \$113 million down from \$190 million last quarter and \$170 million in Q1/07. Investment banking benefited from positive credit derivative gains offset by lower real estate finance revenues. Merchant banking gains declined to \$42 million from \$163 million last quarter.
- Security losses were \$49 million versus a gain of \$133 million in the previous quarter and a gain of \$133 million in Q1/07. The unrealized security gains increased to \$438 million up from \$372 million as at the end of last quarter.
- Provision for Credit Losses (PCL) increased to \$172 million from \$132 million last quarter and up from \$143 million in Q1/07. For 2008 we are now estimating PCL of \$750 million.
- Gross impaired loans (GIL) increased to \$940 million in the quarter from \$863 million in the previous quarter. Net impaired loans increased to \$360 million up from \$310 million last quarter but flat Y/Y.

Recent Events

- Issued \$2.94 billion of common equity (44.5 million common shares) including an over-allotment. \$1.5 billion issued to four institutions at \$65.26 per share. Institutional investors are Manulife, Caisse de depot, OMERS and Cheung Kong (Holdings) Ltd. (Li Ka-shing). The balance sold to the public by a syndicate lead by CIBC World Markets and offered at \$67.05 per share.

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