

Recommendation

HOLD

Target Price

\$110.00

Risk

Low

Average Daily Volume

150 day: 892,700

Quick Facts

Recent Price C\$102.60
 Symbol CM-T
 Shares O/S 337 million
 52 Wk. Range \$73.25-\$107.45
 Fiscal Year End October 31

	EPS	Multiple
2006a	\$6.95	14.7x
2007e	\$8.00	12.8x
2008e	\$8.75	11.7x
Book Value	\$32.67	3.2x

	Rate	Yield
Dividend	\$3.08	3.0%

CIBC



Data Source: BigCharts.com

CANADIAN IMPERIAL BANK OF COMMERCE provides financial services to retail and small business customers as well as corporate and investment banking customers.

CONCLUSION: REDUCED TO HOLD - TARGET MAINTAINED AT \$110.00

CM reported cash EPS of \$2.29 up 39% Y/Y. Adjusting for (i) tax related recoveries of \$91 million (+\$0.27 per share), (ii) a \$24 million reversal of general allowances (+\$0.05 per share) and (iii) unrealized securities gain of \$10 million (+\$0.02) adjusted operating earnings were \$1.95 or \$0.02 per share above our expectations and a Y/Y increase of 26%. Earnings this quarter were driven by an exceptional performance in CIBC World Markets from the real estate group. Adjusted cash operating ROE was 24.6% down from 25.6% in Q2/06. Tier 1 capital has now been restored to 9.5% which is up from 9.2% in Q2/06 and includes 91.5% ownership of FirstCaribbean. Slow revenue growth expectations combined with market share losses on the lending side suggest a need for acquisitions in order to reverse these trends.

Our 2007 & 2008 EPS estimates remain unchanged at \$8.00 and \$8.75 respectively. In addition we expect a dividend increase to the \$3.20 to \$3.30 range over the next 6 months which would imply a payout ratio of only 40% which is still at the lower end of the target payout ratio range. Management clearly indicated its renewed willingness to keep the payout ratio well within the 40% to 50% range. In addition, management stated that it intends to repurchase up to 10 million common shares under its current issuer bid. We consider this as significant as both dividend increases and share repurchases were suspended some two years ago after the Enron settlement.

Valuation

We expect CM to warrant a P/E multiple approximating a 5% discount to the bank average and a 10% discount to the average of BNS, RY & TD. Based on a multiple of 12.6x our 2008 EPS estimate we are maintaining our 12 month share price target of \$110.00. Our estimated 12-month total return for CIBC is 10.2% and we lowered our recommendation to HOLD from BUY.

Other Quarterly Highlights

- CM reported cash net income of \$781 million or \$2.29 per share up 40% Y/Y. Adjusting for the above stated non-operating items of \$115 million after-tax or \$0.34 per share, adjusted net income would have been \$666 million or \$1.95 per share, a gain of 26% Y/Y. Revenues increased to \$3.0 billion for a Y/Y gain of 10%. Revenues included three months of FirstCaribbean for the first time. Excluding FirstCaribbean, revenues Y/Y were up 4%. Management indicated that it is focused on growing revenue and that retail revenue growth rates are expected to match industry growth rates over the next few quarters. Expense reductions are essentially complete.
- Retail banking reported cash operating income of \$583 million up from \$530 million last quarter and up 35% Y/Y. However after adjusting for the \$80 million tax recovery and an estimated \$38 million of FirstCaribbean net income, adjusted net operating income is estimated at \$503 million up 14% from an adjusted \$408 million last year. Strong loan growth in mortgages was experienced. Credit card revenue was up 7% Y/Y. Retail brokerage was flat due to lower new issue volume. Insurance revenues were up 34% Y/Y. PCL was \$182 million up from the previous quarter but unchanged Y/Y. CM experienced small gains in residential mortgage and consumer market share but continued to lose market share in credit cards and personal lending.
- Mutual fund revenue increased 8% Y/Y to \$216 million. Mutual fund AUM increased 10% to \$51 billion.
- CIBC World Markets net income was \$194 million or \$183 excluding an \$11 million tax reversal, down from \$210 last quarter but up 66% over a weak Q2/06. Total revenue increased to \$726 million up 20% Y/Y driven by record U.S. real estate financing revenues which were double the same period last year and stronger Merchant Banking revenues of \$85 million up 23% Y/Y.
- Trading revenue was lower in the quarter at \$123 million down from \$184 million last quarter and below the average of the last 8 quarter average of \$185 million.
- Security gains were \$119 million in the quarter and the unrealized security gains increased to \$474 million up from \$351 million as at the end of last quarter.
- Provision for Credit Losses (PCL) was \$190 million (excluding a \$24 million reversal of general provisions) up from \$153 million last quarter and up from \$163 million in Q2/06. The losses reflected \$5 million add by FirstCaribbean and \$5 million due to a one time risk assumption revision. The largest increase was from small business loans up \$11 million Q/Q. Credit card losses were higher due to higher volumes but stable as a % of total loans (credit card balances increased 21% Y/Y). Recoveries decreased to \$22 million from \$53 million last quarter. PCL as a % of loans increased to 0.47% from 0.37% last quarter and still below the Bank's target range of 0.50 to 0.065%. We have increased our 2007 PCL forecast to \$700 from \$650 million. For 2008 we are now estimating PCL of \$750 million.
- Gross impaired loans (GIL) decreased to \$981 million in the quarter from \$991 million in the previous quarter when the First Caribbean added \$332 million. GIL in Q2/06 was \$817 million excluding FirstCaribbean.
- On April 27, 2007 CM announced a normal course issuer bid and stated that it intends to repurchase up to 10 million common shares or about 3% of the total outstanding.

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