

CIBC

(CM-TSX \$70.75)

RECOMMENDATION SELL; TARGET LOWERED

Headlines:

1. CIBC Confirms ACA As Hedge Counterparty
2. Risk Increases As Write-Down Could Dwarf Enron
3. Capital Injection Could Be Necessary Lowering EPS Projections

Event: Canadian Imperial Bank Of Commerce (CIBC) confirmed yesterday that ACA Financial Guaranty Corp. (ACA) is a hedge counterparty to CIBC's approximate US\$3.5 billion of U.S. subprime real estate exposure. S&P also announced that ACA's credit rating has been lowered to 'CCC' from 'A' which implies that ACA may no longer be a going concern. CIBC indicated that its current loss exposure is US\$2.0 billion and therefore the bank could incur a like charge in Q1/08. CIBC indicated that its capital ratio would remain over 9.0%.

Conclusion:

1. CIBC Reduced To SELL
2. 12-Month Target Price Reduced to \$75.00
3. Risk Increased To MEDIUM From LOW

COMMENTARY

We conclude that CIBC's potential loss could be more in the range of US\$3.0 to US\$4.5 billion (up from our original position of a US\$2.5 billion write-down) now that it has been confirmed that ACA is the hedge counterparty to the US\$3.5 billion CDO position. This position also assumes the market for CDO's and SIV's will continue to deteriorate over the next 6 to 12 months.

As uncertainty mounts over the potential losses at CIBC, there is an increasing possibility that CIBC will need a capital injection of \$2B - \$4B similar to Citigroup and UBS (US\$ 7.7B and US\$11.5B respectively). This would only be helpful if it was to be common equity which raises the prospect of dilution of 15% to 25%. Dilution of this magnitude would reduce our 2008 EPS outlook to closer to \$8.00 from \$8.95.

Alternatively CIBC could be taken over by another major financial institution in Canada if the politicians would get some 'smarts'. That could be a stretch but CIBC may be the motivator to get the Government to move. Then of course that would open the door to other potential mergers as well. In this instance we could see CIBC taken out at 2.8x to 3.2x adjusted \$25.00 per share book value (after a write-down of \$8.00 per share – current book value is \$33.31 per share) for a take-out price of \$70.00 to \$80.00 per CIBC share.

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