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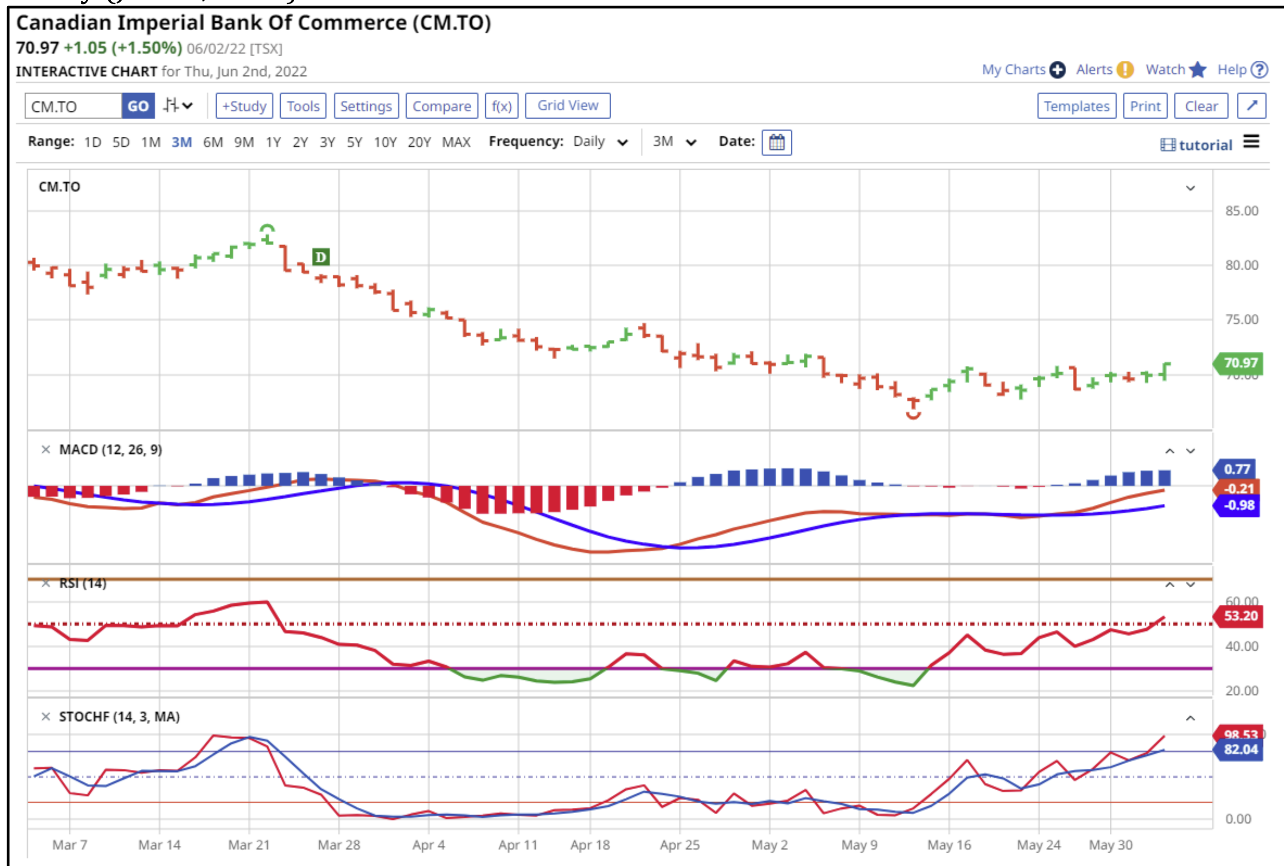
FOR EDUCATION PURPOSES ONLY

Canadian Imperial Bank of Commerce (CM)

Canadian Imperial Bank of Commerce is Canada's fifth- largest bank, operating three business segments: retail and business banking, wealth management, and capital markets. It serves approximately 11 million personal banking and business customers, primarily in Canada.

3M Daily (June 2, 2022)



52W High: Feb 8, 2022, $ 83.75

Dividend History (post-COVID).

Canadian Imperial Bank Of Comm (TSX : CM)					
Year	Declaration Date	Ex-Dividend Date	Record Date	Payable Date	Dividend $ Amount
2022	26-May-22	27-Jun-22	28-Jun-22	28-Jul-22	$ 0.83
2022	24-Feb-22	25-Mar-22	28-Mar-22	28-Apr-22	$ 0.81
2022	02-Dec-21	28-Dec-21	29-Dec-21	28-Jan-22	$ 0.81
2022 Total:					**$ 2.44**
2021	26-Aug-21	27-Sep-21	28-Sep-21	28-Oct-21	$ 0.73
2021	27-May-21	25-Jun-21	28-Jun-21	28-Jul-21	$ 0.73
2021	25-Feb-21	26-Mar-21	29-Mar-21	28-Apr-21	$ 0.73
2021	03-Dec-20	28-Dec-20	29-Dec-20	28-Jan-21	$ 0.73
2021 Total:					**$ 2.92**
2020	27-Aug-20	25-Sep-20	28-Sep-20	28-Oct-20	$ 0.73
2020	28-May-20	26-Jun-20	29-Jun-20	28-Jul-20	$ 0.73
2020	26-Feb-20	26-Mar-20	27-Mar-20	28-Apr-20	$ 0.73
2020	05-Dec-19	26-Dec-19	27-Dec-19	28-Jan-20	$ 0.72
2020 Total:					**$ 2.91**

Updated May 26, 2022

Narrow-moat-rated Canadian Imperial Bank of Commerce, or CIBC, reported decent fiscal second-quarter earnings. Adjusted earnings per share were CAD 1.77, fairly close to the CapIQ consensus of CAD 1.71 and representing a year-over-year decline of 1%. The bank recorded a credit loss provision of CAD 303 million, which was the key reason for the decline in year-over-year earnings, as pre-provision net revenue was actually up 4%. While some peers were still seeing low provisioning costs and even provisioning benefits in some cases, CIBC's acquisition of the Costco card portfolio and some negative tweaks to its economic outlook helped drive provisioning higher in the quarter. We are at a point where we should see provisioning begin to normalize higher for the industry. We'll note that this level of provisioning is simply a return to normal after a year of exceptionally low provisioning.

Pre-provision net revenue growth of 4% was driven by year-over-year growth in both net interest income, or NII, and fees. The momentum for fees is slowing down as fees were down 3% sequentially, driven by a drop in wealth-, credit-, and card-related fees, although CIBC was able to hold investment banking-related fees and trading fees relatively stable sequentially. A decline in trading-related NII put some pressure on NII in the second quarter; however, as rates and the balance sheet continue to increase, we would expect sequential growth in NII to pick up. Meanwhile, adjusted expenses were up 5% year over year, in line with our mid-single-digit percentage growth expectation, although when including the Costco and variable compensation adjustments, expenses do look set to come in a bit higher than our previous projections. Overall, pre-provision net revenue is still on track to meet management's goal of 5%-10% for the year.

After increasing our overall expense projections, we are decreasing our fair value estimate to CAD 77/USD 60 from CAD 78/USD 61.

Business Strategy and Outlook

Canadian Imperial Bank of Commerce is the fifth-largest bank in Canada by assets and one of six that collectively hold almost 90% of the nation's banking deposits. CIBC is more Canadian-focused than some of its more international peers, although this is changing after the acquisition of Private Bancorp. The bank plans to eventually have up to 25% of revenue coming from the U.S. Despite having one of the larger domestic branch networks, CIBC's products haven't typically had top share in Canada, though the bank had made significant strides in multiple categories for years starting in 2011, as the bank increased share in multiple categories and increased product numbers per customer. This improvement has admittedly slowed down recently, although the bank took some incremental share again in 2021. Overall, we believe CIBC has improved its core operating performance over the years, and while the improvement has slowed and the bank's expense base is rising as CIBC continues to invest in technology and other aspects of the franchise, we still see the bank making incremental improvements over the medium term.

CIBC has encountered its own issues over the years, including multibillion-dollar write-downs in the aftermath of the global financial crisis. The bank had hit its stride since 2011, improving consumer satisfaction ratings, reoptimizing branches, improving internal processes, and expanding wealth operations. The bank is also seeing improved growth from its U.S. operations, which now contribute over 20% to earnings.

CIBC has the highest concentration in uninsured Canadian mortgages. While we don't think the Canadian housing market is the same as the U.S. was in 2007, we estimate a downturn in Canada could affect CIBC more than other Canadian banks. Although, we view a housing downturn as more of a threat to future growth rather than a threat to capital.

Economic Moat

Over 80% of CIBC's income originates within the high-return Canadian banking market, and its moaty nonbank businesses and improving internal operations all lead us to our narrow moat rating. We assign a narrow moat rating instead of wide because the bank does not have leading market share in its domestic operations, limiting some of its cost advantages, and it has a history of higher credit costs related to poor investment and lending decisions. This has increased credit costs over time and further limits the bank's cost advantages. The bank's leading exposure to the Canadian housing market also makes us believe that credit costs could be even higher if it unravels.

We argue that bank moats are derived primarily from two sources: cost advantages and switching costs. We think switching costs in the Canadian system are driven by a tightly regulated oligopolistic market structure that limits excess competition, stabilizing product pricing and giving customers less incentive to switch banks. Cost advantages stem from three primary factors: a low-cost deposit base, excellent operating efficiency, and conservative underwriting, with regulatory costs a final factor that we must also consider. We believe the Canadian banking environment offers systemic cost advantages, which manifest in the form of lower operating costs, lower credit costs, lower regulatory costs, and lower absolute levels of and better diversification of risks, all of which allow the banks to achieve greater risk-adjusted returns.

CIBC has built up substantial market share in its Canadian retail operations, particularly in its retail mortgage operations. While the bank has done a lot to improve the depth and quality of client relationships over the past five years, it's usually not the number-one or -two player for its products, and we don't expect this to change significantly. This leads us to believe that the bank's deposit cost and general scale advantages are not as great as the more dominant players. CIBC has also generally been only average from an operating efficiency standpoint, limiting its costs advantages here as well. After its latest round of projected improvements through 2019, we believe the bank will be pushing to be above average on operating efficiency, although it will still be behind the most efficient operators like Bank of Nova Scotia. Overall, we think these results play out in the firm's projected ROEs, which we think will tend to be slightly lower than the most dominant Canadian bank, RBC, and which historically have tended to be more volatile than the more conservative Toronto-Dominion, which are our two wide-moat Canadian banks. We also think CIBC is more at risk of disruption to its current returns because of its outsize exposure to the Canadian housing market, the largest of all the Canadian banks. The bank is also aiming to increase the proportion of U.S. operations to up to 25% of the total business, which should further dilute ROEs. Even so, the Canadian segment will continue to make up the vast majority of CIBC's business mix, and this segment earns returns on equity well in excess of the cost of equity of 9% we assign to the bank.

CIBC's capital markets group tends to be smaller than the larger Canadian banks, both domestically and internationally, which we believe is more supportive of a narrow moat. Also, while not the most dominant asset manager among the Canadian banks, CIBC, through both organic growth and acquisitions, has managed to build up a respectable amount of assets under management among peers. This gives the bank scale and exposure to this higher-margin, fee-based business, which we don't think will change in the near term as the banks still have the most dominant branch and distribution networks.

We believe the Canadian banking system offers cost advantages that lead to returns above the cost of capital, allowing the main banks to possess moats.

Barriers to entry are very high in the Canadian banking system. Regulations prevent foreign competition, as non-Canadian residents may not own more than 25% of the shares of a bank unless approved by the government (preventing foreign takeover), and foreign banks can operate in Canada only under certain restrictions (preventing significant direct foreign competition). Domestic competition is also controlled, as Canada's banking system was developed to favor a few large banks controlling the majority of the domestic market, and this is actively enforced through the handling of chartering by the federal government exclusively. Additionally, the rejection of merger proposals in 1998 between Royal Bank of Canada and BMO, and between Toronto Dominion and CIBC created a precedent where no further consolidation between the main Canadian banks will be accepted by the regulators.

Having larger banks helps spread out fixed costs across a larger operating base, increasing operating efficiency, as the four largest Canadian banks are all bigger than the largest U.S. regional bank. The Canadian banks, because their branch networks spread throughout the country, arguably have some of the most powerful distribution networks within Canada. This offers cost advantages via lower customer acquisition costs. In addition, the banks are involved in nearly every major financial product, including asset management, wealth management, insurance,

investment banking, and a variety of other consumer and commercial banking products and services. Bigger scale, powerful distribution networks, a multitude of products, and diversification of business lines lead to economies of scope in addition to the economies of scale already achieved.

We believe a more protective and efficient regulatory system also leads to cost advantages, primarily through risk reduction. Less-fragmented and well-integrated banking systems, like the Canadian system, tend to be more stable, reducing risk. Also, Canadian regulators must only primarily monitor and develop relationships with the big six Canadian banks, which is much easier than trying to monitor the thousands of banks in the U.S., for example. This leads to more collaboration and cooperation between regulators and banks as well as greater institutional memory and more coordinated and easily implemented responses if strains begin to appear in the system. Regulators also help control pricing in the market at times, such as on mortgage products, helping reduce the potential for pricing wars to gain market share at the expense of underwriting standards. Canadian regulation also makes it more difficult for bad credit to be issued, including mandatory insurance and standards on riskier mortgage loans, not having a government-subsidized mortgage securitization market, and forcing banks to hold more of the risk on their own balance sheets. These factors help contribute to better absolute risk reduction in the system as well as regulatory economies of scale.

The Canadian banks are also more geographically diverse on average than, for example, most U.S. regional banks, which are often concentrated within states or local economies. This diversifies credit risk, lowering the overall risk for each individual bank. Canada’s system of higher taxes, more social safety nets, and undoubtedly other complex factors have also led to a more robust and stable middle class that contributes to economic and political stability, further reducing systemic risk.

Combine all of these factors, along with explicit government subsidies on deposit insurance and mortgage insurance as well as the implicit subsidy of being too big to fail domestically (all big six Canadian banks are labeled as domestic systemically important banks), and we believe an environment exists in Canada where excess returns for banks are almost certain.

Fair Value and Profit Drivers

After updating our projections with the latest quarterly results, we are decreasing our fair value estimate to CAD 77 per share from CAD 78. This is 1.9 times tangible book value as of April 2022.

Our base scenario assumes that net interest margins gradually expand over the next several years as rate hikes occur in Canada and the U.S. We see an initial burst of loan growth of 11% in 2022 and 5% in 2023, followed by average growth closer to 4% thereafter. Our forecast has below average charge-offs in 2022 before normalizing to prepandemic levels in 2023. CIBC is more exposed than its other Canadian counterparts to the housing market, but we view this as more of a future risk to growth than an existential risk to capital. We project noninterest income growing at a CAGR of 3%, with an initial burst of 6% in 2022, driven by wealth management fees, and a return of card fees and deposit service fees. We've increased our expense growth forecast, predicting

growth of 7% in 2022, followed by a more steady 3% per year thereafter. In sum, our forecasts lead to an average return on tangible equity of 14%. We use a 9% cost of equity.

Risk and Uncertainty

The Canadian banks face two primary risks: macroeconomic risks and risks related to acquisitions. Macroeconomic risks are those related to the housing market and the credit and debt cycle, which are largely out of management's control. Canada has among the highest median housing prices/annual median household income ratios in several of its major housing markets, and mortgage debt has consistently increased for more than a decade. While low interest rates have kept debt-servicing ratios more controlled, this puts the economy in a riskier position. We also see the leverage of the Canadian consumer as a risk. Once the economic cycle turns, this could result in greater potential for consumer defaults, as well as a longer period of decreased economic demand.

CIBC has the highest overall exposure to Canadian real estate among its peers. Any hit to Canadian consumers, of which a large portion of their average debt is mortgages, could be painful for CIBC.

From an environmental, social, and governance perspective, commercial banks are expected to have strong product governance. Predatory or discriminatory lending practices are examples of poor product governance, which can affect certain banks at times. We view most product governance and social risks as manageable and incorporate a steady level of operational expenses related to compliance and litigation in our models. Outside of the rare headline-grabbing scandals, we don't see social risks as having a material effect on our valuation. Banks also lend to certain sectors which can come under more scrutiny at times, like gun manufacturers, or energy, for example. Commercials banks don't directly have a large environmental footprint and governance practices are in line with most companies.

We assign our Canadian banks a medium uncertainty rating, which we think captures the spread between our bull and bear cases relative to our base case.

Capital Allocation

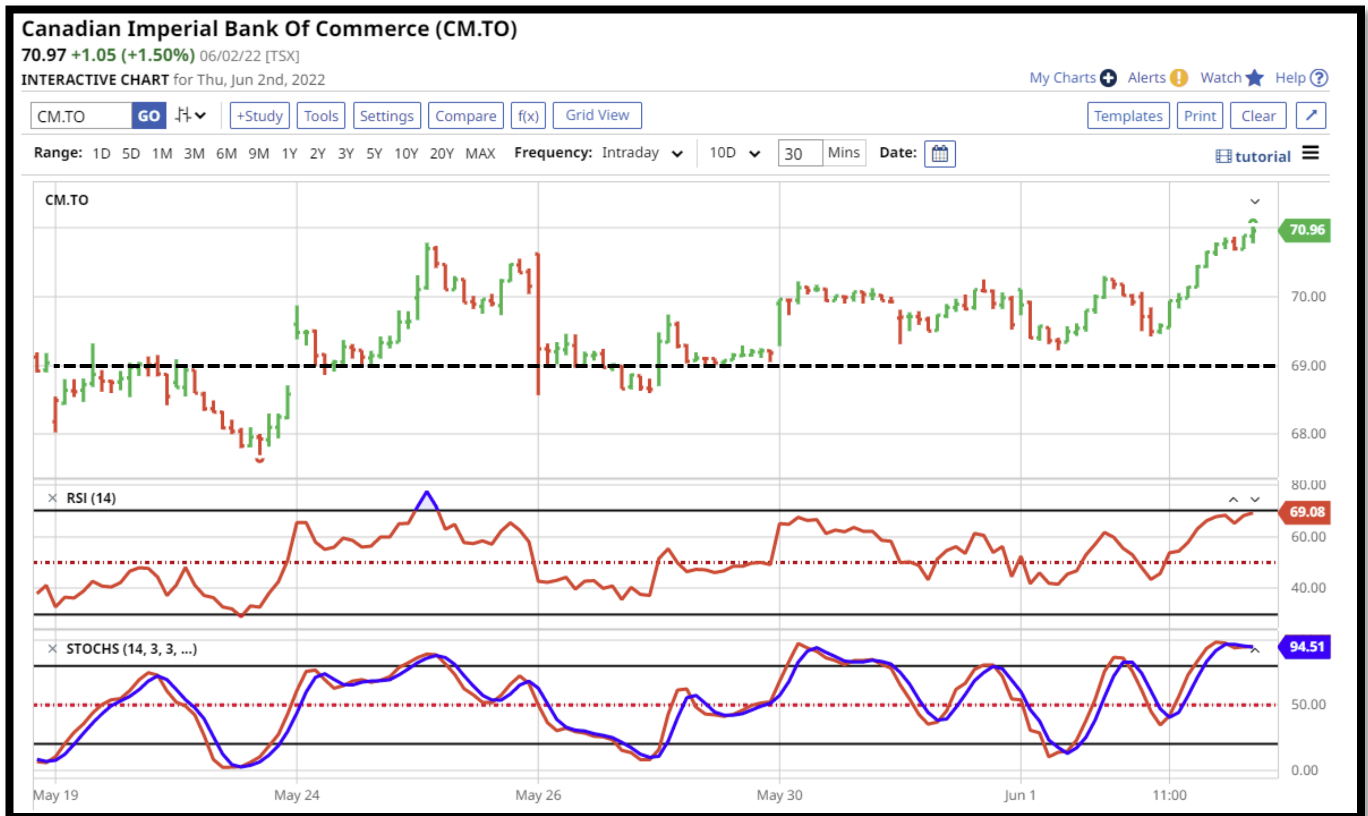
We give CIBC a Standard capital allocation rating. In our opinion, the company's balance sheet is sound, its capital investment decisions are standard, and its capital return strategy is appropriate. CIBC's common equity Tier 1 ratio of over 10% is more than adequate in our view. We view the company's capital investments as standard. While the bank has had some issues in the past, we think risk management and prudence has improved and the bank's current investments and expansions seem sensible. We assess the company's capital return strategy as appropriate, and it is largely in line with peers, with a healthy focus on a dividend, and some additional earnings left over for repurchases, after internal investments.

CIBC has a history of self-inflicted wounds, but we think former CEO Gerry McCaughey's strategy of derisking the bank and refocusing operations on the core Canadian banking market were sound.

With Dodig's appointment as president and chief executive officer in 2014, the bank has embarked on a number of initiatives. We like that CIBC has put more attention on building its wealth management segment, selectively expanding in the U.S., and improving operating efficiency and the depth of client relationships. Management has stated an intention to grow the U.S. portion of its business to 25% of its overall operations. The bank reached 21% in 2021. The deal for Chicago-based Private Bancorp, while not a bargain, was a major step in accomplishing these goals, and the boost from tax reform made the acquisition accretive to earnings 1.5 years ahead of schedule. Overall, we think the high-return Canadian retail banking segment will remain the cornerstone of CIBC's capital-generation capabilities, while expansion in the U.S. should provide the much-needed ability to sell additional products to clients with cross-border operations. The bank has also invested in its capital markets operations in both the U.S. and Canada, and has touted that it's better integrated offerings should help it to gain share. We've seen strong initial growth from these efforts, and future share developments for both capital markets and core P&C banking will be critical to watch, as will growth in the bank's surging wealth operations.

CIBC has consciously reduced its risk profile and become more oriented toward "basic banking," serving primarily Canadian consumers and businesses. The bank has brought its mortgage origination in-house, away from its broker network, where it has better control and larger margins. So far, this has worked well for the company and its shareholders. However, the bank now has the highest overall exposure to uninsured mortgages among its peers. Given the bank's history of poor risk-taking, we think the ability to navigate a mortgage downturn given its existing mortgage portfolio, without severe hits to profitability, will be a key test of the new, "lower-risk" CIBC. If the bank can successfully do this, we think it will be evident that stewardship at CIBC has hit new highs. With the pandemic seeming to near an end, the bank has handled it as well as peers, supporting the notion that CIBC is a lower-risk and better-managed bank.

10D 30M



Current Support $ 69 +/-. Stochastic & RSI – Over Sold

Buying strategy:

- Wait for down day i.e., TSX Pull back for any other reason other than CM specific negative news e.g., CM found funding Russia against Ukraine 😊
- Acquire below $70
- Sell Strategy:
    - Long-term: in TFSA account to collect dividends with a sell strategy in the Fall 2022 9to be determined).
    - Short -term: Look to exit $ 72 +/-

Overall: Do Not Panic & no need to collect losses on Canadian Banks.