



Canadian Imperial Bank of Commerce (CM)

Updated February 28th, 2023 by Kay Ng

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	11.3%	Market Cap:	\$42B
Fair Value Price:	\$52	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/27/23
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	04/28/23
Dividend Yield:	5.5%	5 Year Price Target	\$63	Years Of Dividend Growth¹:	12
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Canadian Imperial Bank of Commerce is a global financial institution that provides banking and other financial services to individuals, small businesses, corporations and institutional clients. CIBC is focused on the Canadian market. The bank was founded in 1961 and is headquartered in Toronto, Canada. If not indicated otherwise, all numbers in this research report are in U.S. dollars.

CIBC reported its fiscal Q1 2023 earnings results on 2/24/23. Its revenue climbed 8% to C\$5,927 million against fiscal Q1 2022. Unfortunately, higher provision for credit losses (PCL) (up C\$220 million) and higher non-interest expenses weighed on earnings. Adjusted net income declined 3% to C\$1,841 million. Adjusted earnings-per-share (“EPS”) fell 5% to C\$1.94. PCL increased due to an unfavorable economic outlook. Investors don’t need to be too alarmed, though, as the loan loss ratio was still very low at 0.19%. The bank’s adjusted return on equity (“ROE”) was 15.5%, down from 17.6% a year ago. The bank’s capital position remains stable with a Common Equity Tier 1 ratio of 11.6% versus 12.2% a year ago.

The Canadian Personal and Business Banking segment saw adjusted net income falling 15% year over year to C\$594 million, the Canadian Commercial Banking and Wealth Management segment increased adjusted net income by 2% to C\$469 million but smaller U.S. Commercial Banking and Wealth Management segment saw adjusted net income falling 15% to C\$159 million, and Capital Markets segment’s adjusted net income rose 13% to C\$612 million. We maintain our 2023 EPS estimate of US\$5.20.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$8.25	\$7.86	\$7.06	\$7.67	\$8.62	\$9.19	\$9.04	\$7.53	\$11.28	\$5.25	\$5.20	\$6.33
DPS	\$3.72	\$3.61	\$3.45	\$3.58	\$3.88	\$4.13	\$4.21	\$4.32	\$4.64	\$2.52	\$2.53	\$3.23
Shares¹	399	397	397	397	439	453	446	447	451	906	915	962

In May 2022, the big Canadian bank stock had a two-for-one stock split, which is why its EPS and dividend-per-share (“DPS”) appear much lower in 2022 in the table above. Stock splits do not change the valuation of the stock. The Canadian bank’s goal is to grow adjusted EPS by 7-10% per year over a 3-5 year period under a normal cycle. However, its earnings and dividends have been bumpy due partly to the foreign exchange fluctuations between the U.S. dollar and the Canadian dollar. From 2013 to 2022, the bank increased its EPS and DPS by 2.7% and 3.4%, respectively, per year in US\$. And from 2017-2022, its EPS and DPS growth rates were 4.0% and 5.4%, respectively. Fiscal 2020 was one of those abnormal years with a pandemic triggering a decline in CIBC’s earnings. For the bank, one key area of growth is its loans and deposits portfolio. Rising loans lead to higher net interest income, which is a key source of CIBC’s revenues. In Q1, year over year, it increased net interest income by 2.3%. We project an EPS growth rate of 4.0% through 2028. CIBC maintained its quarterly dividend for 7 consecutive quarters before increasing again after the regulator gave the green light. We expect a dividend growth rate of 5.0% through 2028.

¹ Years of Dividend Growth in C\$; Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	9.5	10.5	10.8	10.1	9.9	10.3	9.2	8.9	10.9	10.0	8.8	10.0
Avg. Yld.	4.3%	4.1%	5.1%	4.5%	4.1%	5.5%	5.1%	6.0%	4.0%	4.8%	5.5%	5.1%

CIBC tends to trade at a lower valuation. From fiscal 2013 to 2022, its price-to-earnings averaged 10.0, while its yield averaged 4.8%. We think a target P/E of 10.0 is reasonable for the long term. The bank stock is discounted today. Its yield likely won't stray far away from the 5% range in the long run. As a Canadian stock, CIBC's dividends may be subject to a 15% dividend withholding tax for U.S. investors. This tax can potentially be avoided by investing in CIBC through a retirement account.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	45%	46%	49%	47%	45%	45%	47%	57%	41%	48%	49%	51%

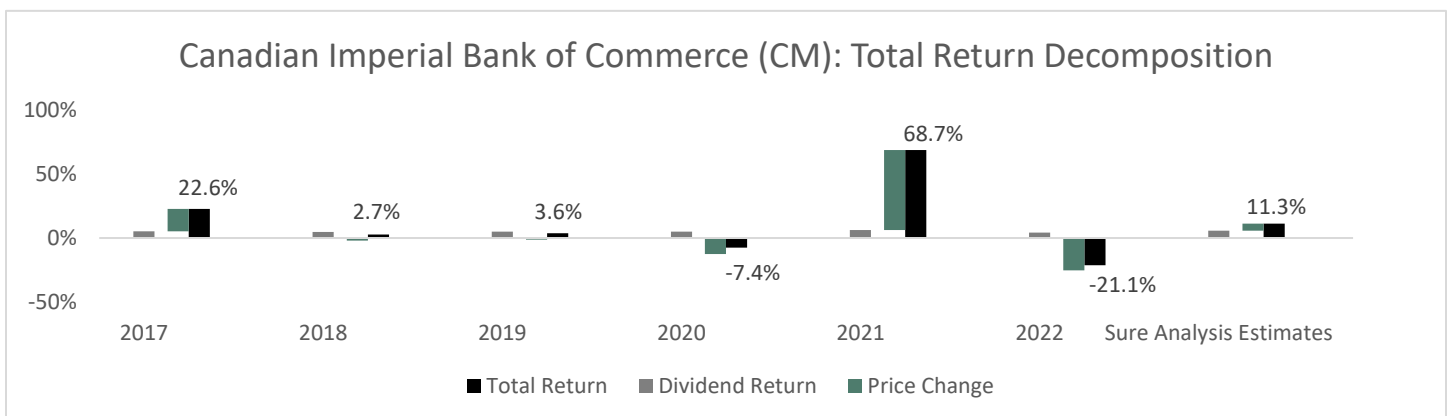
During the last financial crisis that triggered a recession in 2008/2009, the bank stock increased its dividend every year (in the local currency of Canadian dollars), except for fiscal 2009 and 2010 in which it maintained the dividend. The regulator stepped in to be prudent of the potential economic earthquake at that time. During that period, CIBC's adjusted EPS fell about 31% from fiscal 2007-2009 before recovering and having a nine-year run through fiscal 2018. In 2020, CIBC experienced an adjusted EPS decline of 19%. The regulator stepped in again to prevent CIBC and its peers from increasing their dividends. As soon as the regulator loosened restrictions, the big Canadian banks, including CIBC, raised their dividends.

CIBC is not the largest bank in its main market, Canada, (it's the 5th largest), nor in the U.S. This is not necessarily a headwind, as both banking markets are large enough for different players. Due to a focus on consumer banking, and especially mortgages, which usually are insured in Canada, CIBC has a relatively low-risk portfolio relative to other banks. Its performance in the last financial crisis was not good, but not as disastrous as that of many of its North American peers.

Final Thoughts & Recommendation

We forecast 11.3% in total returns annually over the next five years, consisting of a yield of 5.5%, 4.0% earnings-per-share growth, and a 2.6% tailwind from a price-to-earnings ratio expansion. We rate CIBC as a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	12,308	11,985	11,021	10,890	12,137	13,755	13,895	13,882	15,865	16,917
SG&A Exp.	4,435	4,516	4,097	3,859	4,190	4,657	4,578	4,605	5,315	5,818
D&A Exp.	347	746	351	348	414	511	631	975	808	813
Net Profit	3,288	2,953	2,881	3,224	3,593	4,094	3,834	2,819	5,110	4,831
Net Margin	26.7%	24.6%	26.1%	29.6%	29.6%	29.8%	27.6%	20.3%	32.2%	28.6%
Free Cash Flow	4,844	-15,438	15,493	7,573	1,879	7,471	13,816	44,621	-3,315	16,782
Income Tax	614	641	511	541	888	1,105	1,014	817	1,491	1,344

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (B)	380	370	352	374	441	455	495	578	676	693
Cash & Equivalents	6,886	13,209	15,213	11,316	12,203	15,768	17,339	53,797	55,895	53,881
Accounts Receivable	1,057	948	1,015	982	1,140	1,646	1,650	1,378	1,719	2,412
Goodwill & Int. Ass.	2,375	2,158	2,069	2,198	5,725	5,723	5,634	5,415	5,635	5,834
Total Liabilities (B)	363	354	336	356	416	428	466	547	639	656
Accounts Payable	3,039	2,811	3,033	3,087	3,856	5,539	6,410	6,497	7,140	8,255
Long-Term Debt (B)	52	39	97	99	109	112	111	109	132	138
Shareholder's Equity	15,372	15,705	15,467	16,751	22,790	24,919	27,014	28,207	33,344	33,255
D/E Ratio	3.03	2.35	5.98	5.66	4.49	4.22	3.81	3.52	3.60	3.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	0.8%	0.8%	0.9%	0.9%	0.9%	0.8%	0.5%	0.8%	0.7%
Return on Equity	21.5%	19.0%	18.5%	20.0%	18.2%	17.2%	14.8%	10.2%	16.6%	14.5%
ROIC	4.6%	4.7%	3.4%	2.8%	2.9%	3.0%	2.7%	2.0%	3.3%	2.8%
Shares Out.	803	797	796	792	827	889	891	892	900	906
Revenue/Share	15.34	15.04	13.85	13.75	14.67	15.47	15.60	15.56	17.62	18.68
FCF/Share	6.04	-19.37	19.47	9.56	2.27	8.40	15.51	50.02	-3.68	18.53

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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