



## Does Canadian Imperial Bank of Commerce Know Something the Rest of Us Don't?

### Description

"...be greedy when others are fearful." The wise words of Warren Buffett have never been truer than they are today.

According to *The Globe and Mail*, the fund-management unit of **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) has tripled its stake in beleaguered alternative mortgage lender **Home Capital Group Inc.** ([TSX:HCG](#)) and now owns 15% of its stock.

It's this kind of active management that separates the men from the boys, the women from the girls. Talk about putting your money where your mouth is.

"We like to take advantage of market volatility," Colum McKinley, a portfolio manager with CIBC Asset Management, said in *The Globe and Mail*. "If there's an asset that we think the stock price is overreacting to the news that's an opportunity for us to add to our position."

So, Home Capital IS a buy? Maybe yes; maybe no. You see, CIBC's ownership figure is as of April 30; a lot has happened since then.

### Line of credit drawn

On May 1, Home Capital reported that it had drawn on the first billion of the \$2 billion line of credit provided by the Ontario Hospital Pension Plan on April 27. Since then, it's drawn on an additional \$400 million, leaving it with \$600 million undrawn. Given the onerous terms of its agreement with the pension fund, the interest clock is ticking.

### Stronger board of directors

Home Capital's board of directors got a makeover. On May 5, Home Capital founder replaced Gerald Soloway with Allan Hibben, a former bank and trust company executive, who — along with the rest of the board — will work to rebuild confidence in the company.

Three days later, Home Capital added three prominent business people to the board, including two former pension fund CEOs: Claude Lamoureux (former CEO, Ontario Teachers' Pension Plan) and Paul Haggis (former CEO of OMERS). Also, it made current board member Brenda Eprile, a former executive director of the Ontario Securities Commission, chair of the board.

### **Suspends dividend**

On May 8, Home Capital suspended its quarterly dividend of \$0.26 per share to preserve cash.

### **Greater financial flexibility**

On May 9, Home Capital announced an unnamed third-party would buy \$1 billion in qualifying uninsured mortgages and \$500 million worth of insured mortgages.

Also, the third party indicated it's interested in doing more transactions with the company. By selling these mortgages, Home Capital is ensuring it can continue to provide loans to the mortgage broker community.

### **Deposits rapidly shrinking**

On May 11, Home Capital announced that balances on its high-interest savings accounts had dropped to \$128 million — down almost \$2 billion in the span of six weeks. The decline in deposits, more than anything, is what knocked the stuffing out of Home Capital's stock.

### **Where to next?**

The situation is a fluid one that's changing by the minute. Since the end of April, its stock has recovered by 26%, but that will continue to flip-flop with every piece of good and bad news.

"We're disappointed in the outcome to date, but we think that there is an asset here where the quoted value in the market doesn't represent the underlying value of the company, and ultimately what will be recognized for shareholders," said the CIBC portfolio manager.

CIBC added 7.23 million shares between the beginning of March and the end of April according to *Bloomberg*. In that time, Home Capital stock hit a high of \$28 on March 27 and only went into single digits on April 26. You can bet the people at CIBC Asset Management are hoping this situation gets rectified — and soon.

### **Bottom line**

Because of delayed reporting, investors have no way of knowing if CIBC Asset Management is unloading shares now that Home Capital's stock has jumped back into double digits.

Does CIBC know something we don't? Probably not.

CIBC Asset Management made an absolute value play, and its timing was incredibly off. The bank might still win this bet, but it's going to take an awfully long time to play out.

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2. Investing

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3. TSX:HCG (Home Capital Group)

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