



This Blue Chip Canadian Stock Now Yields 4.2%

Description

Ever since it started paying regular dividends in 1868, **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)) has been an income investor's dream.

For 146 consecutive years the banking giant has managed to send a cheque to shareholders. Over the past decade alone, it has managed to increase that payout by 63%, much to the delight of income-hungry investors looking for alternatives to anemic bond yields.

However, many investors are skeptical as to whether CIBC will be able to maintain this growth pace. If you think this firm can't keep up such a heady pace of dividend increases, though, you could be in for an unpleasant surprise. The bank continues to defy the naysayers with across-the-board strength in every segment of its operations.

During the second quarter, domestic retail remained a bright spot, with profits up 8% year over year after excluding the sale of its Aeroplan credit card business. Wealth management earnings were up 29% thanks to higher revenue from fees and commissions. Another bright spot was wholesale banking, where profits rose 11% on the back of strong revenue from equity derivatives and fixed income trading.

None of this hides the fact that profits declined 60% compared to the same period last year. But once you dig beneath the headline number, it's apparent that CIBC is in fine shape. Most of this surprise decline was the result of a \$420 million goodwill writedown of its Caribbean operations as well as other one-off items. After stripping out these non-cash items, CIBC made \$887 million, or \$2.17 per share.

CIBC has also cleaned up its balance sheet. Five years ago the company earned the reputation of the "Cowboys of Bay Street" for its involvement in some of the riskier products that started the financial crisis. Today, CIBC is now the best-capitalized of all the major banks, sporting a Tier 1 common equity ratio of 10%.

All of this means the bank has plenty of extra capital to grow the business or reward investors through dividends and share buybacks. We'll likely see a combination of both.

Chief Executive Gerry McCaughey is particularly keen on expanding the wealth management division

in the near future, with plans to have the unit contribute 15% or more of total earnings, up from 13% today. That target will likely be achieved through a mix of organic growth and acquisitions. CIBC is also considering a U.S. expansion.

Shareholders will likely be compensated too. Last week, CIBC hiked its quarterly dividend by \$0.02 to \$1.00 per share. Based on Thursday's closing price, the new annual dividend yield tops a hearty 4.2% — the largest of Canada's big five banks. Given that the bank is well capitalized, there's still plenty of room for that payout to grow.

All of that said, CIBC, or any Canadian bank for that matter, is no slam dunk. [In a great piece last week](#), Fool contributor Nelson Smith pointed out a number of headwinds facing the banking sector, including the country's overheated housing market and growing competition in retail lending. And following the recent run-up in the stock market, valuations are also starting to look a little stretched.

But given the fact that the company is well capitalized, CIBC is the best positioned of its peers to ride out any turmoil. Thanks to the stock's high yield and growing payout, it's still a risk worth taking.

CATEGORY

1. Investing

TICKERS GLOBAL

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Author

rbailieul

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