



3 Reasons to Buy and Hold Canadian Imperial Bank of Commerce

Description

Many dividend investors focus exclusively on high yield stocks, choosing to let some quality but lower-yielding dividend payers go untouched. Case in point: **Canadian Imperial Bank of Commerce** ([TSX: CM](#))([NYSE: CM](#)).

Over the past decade, the stock's yield has averaged just 4%. That's not bad, but hardly enough to whet the appetite of the most discerning income investor. Yet CIBC's dividend and share price have both grown steadily, producing an impressive total return of 75% over the past 10 years.

Of course, those are backward-looking numbers. But there's good reason to believe that CIBC will continue to earn solid returns. Here's why...

1. It has a wide moat

If CIBC were a castle, then it would be guarded by a deep, wide moat. The nation's big six banks control almost the entire industry. Moreover, strict regulations on ownership keeps foreigners out. That means incumbents can earn thick profits without the worry of new entrants eating into margins.

For shareholders, this has meant big, juicy profits decade after decade. Over the past five years, CIBC has generated double-digit returns on equity. These are levels foreign bankers could only dream of.

2. It's a dividend machine

This competitive advantage explains how CIBC has been able to pay a dividend to shareholders every year since 1868. And just over the past decade, the firm's payout has more than doubled. This includes the most recent hike in May where management announced a quarterly dividend increase of 2 cents to \$1.00 per share.

Given that Bloomberg recently rated CIBC as the strongest bank in North America, this dividend is one of the safest in the financial sector. With a strong balance sheet, diverse business lines, and more than \$3 billion of annual profits, shareholders can count on CIBC to uphold its dividend record.

3. It's not too expensive

Now I didn't say the stock is cheap. CIBC shares are up nearly 20% over the past year. After the recent share-price gains, the stock trades at about 13 times estimated forward earnings. That's a steep multiple, but it's justified given the bank's strong growth prospects.

CIBC is a wonderful business that will almost certainly deliver steady dividends for many years to come. But that said, I'm nervous buying it at this level. That's why I'm leaving CIBC on my wish list for now. But if the stock hits another rough patch like we saw last month, I would consider making it a permanent addition to my income portfolio.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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Author

rbailieul

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