Should You Buy Canadian Imperial Bank of Commerce for its 4.8% Yield?

Description

A leading Canadian-based global financial institution, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), will report its third-quarter earnings results on August 27.

Priced under $92 per share and yielding close to 4.8%, the bank has $36.4 billion in market capitalization. It is over 14% off its 52-week high and over 4% above its 52-week low.

Should investors buy its shares around earnings report time? First, let's take a look at CIBC's business.

The business

Its key businesses include retail and business banking, wealth management, and wholesale banking. Its retail and business banking now offers a mobile banking app for the Apple watch and a new CIBC Telus co-branded rewards credit card.

Its wealth management business achieved record long-term mutual fund net sales of $2.5 billion last quarter. Mutual fund sales tend to do well when the overall market is doing well. Also, its CIBC Investor's Edge, which includes the low cost, flat-fee price of $6.95 for online equity trades and commission-free exchange traded funds, saw account openings rise 50% year over year.

Last quarter it brought in revenue of $3.3 billion, with 61% from retail and business banking, 20% from wholesale banking, and over 18% from wealth management.

In the same period its net income summed up to $962 million. Over 60% came from retail and business banking, 26% came from wholesale banking, and over 13% came from wealth management.

As of the end of April CIBC had total assets of $439.2 billion.

Valuation

Historically, it could easily reach a price-to-earnings ratio (P/E) of 11, while today's shares are at a P/E of 10. So, CIBC shares are discounted by about 9% today.

Dividend

At under $92 per share, CIBC yields 4.8%. Its payout ratio of about 47% implies a solid dividend. With a target payout ratio of 40-50%, there's still room to continue increasing its dividend.

Over 13 years CIBC has increased dividends at a compound annual growth rate of 7.3%. That included the period it froze its dividend from 2008-10 during the Financial Crisis.

It last raised its quarterly dividend in June at an annualized rate of 9%. So, if you bought 100 shares, or an investment of under $9,200 today, you'd receive at least $109 every three months, assuming dividend raises will be coming in the future.

Historically, the bank has reached a yield of over 5%, so the patient Foolish investor can wait for that higher yield point before buying.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. CIBC could go up or down 4% in one day.

Because CIBC shares are slightly discounted today compared with historical multiples, Foolish investors could act cautiously by buying half a position now and finishing off the position after the earnings report.

That is, if you plan to buy $5,000 in the bank, you could buy $2,500 today and buy more after the earnings report.

Pro earnings report, if the price goes up it means the company is doing better than expected. If not, then you might be able to spend another $2,500 and buy more shares at a lower price.

CATEGORY

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2. Dividend Stocks
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