Why You Should Buy Canadian Imperial Bank of Commerce and its 4.7% Dividend

Description

The Canadian economy is a serious concern right now for bank investors, and for good reason. Because of low oil prices, the country is likely in recession, and consumer debt remains at record levels. The situation could get worse if housing prices cool. And to top it all off, The Bank of Canada has reduced interest rates twice this year, which cuts into lending margins.

This is especially concerning for **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), because the company has more exposure to the Canadian economy than any other Big Five bank. CIBC also has a bad habit of running into trouble. The most recent example occurred during the financial crisis, but other examples include the Enron fiasco (2005), the Asian financial crisis (1998), and Third World debt (1989).

Yet these concerns seem way overblown, and the bank's latest quarterly results back that up. We take a closer look below.

A great quarter

CIBC reported results for the third quarter of 2015 on Thursday, and the numbers were pleasantly surprising. Its net income increased by 6.2% year over year, reaching $1 billion. On an adjusted basis, CIBC increased earnings by 10% and beat analyst estimates by 6% on a per-share basis.

These results didn't come from stretching the balance sheet.

CIBC kept its CET1 ratio at 10.8%, which leads the Big Five banks. And CIBC has plans to put that capital to work. The bank increased its dividend by 3% and launched a plan to buy back up to eight million shares over the next 12 months. The shares are up 5% in response, as of this writing, although that's partly due to a strong day for equities in general.

A depressed share price

Despite the strong results and the increase in its stock price, the shares are still down by about 5% on the year. Clearly, investors are concerned about the Canadian economy, but in this case they have overreacted.

CIBC now trades at just 10.6 times earnings, an incredibly low number for a company that just grew profits by 6%. You'd have a tough time finding these kinds of numbers in any other industry.

A fantastic dividend

Because of CIBC's depressed share price, its newly increased dividend yields an impressive 4.7%. What makes this all the more remarkable is that CIBC pays only half of its income to shareholders. Thus, even if CIBC's income suffers some headwinds, as it very well may, the dividend should remain perfectly safe.

To sum up, CIBC remains a strong company with a cheap share price and solid dividend. So, if you're looking for some steady income, this bank would make a great addition to your portfolio.

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2. Dividend Stocks
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