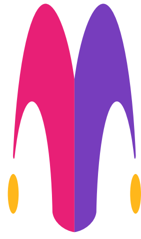

Stay Away From CIBC (TSX:CM) Stock Unless You Like These Kinds of Dividends

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), commonly known to Canadian banking customers and stock pickers as CIBC, is looking like good value at the moment, and it pays a competitive dividend.

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While other financials continue to get slightly more attention, most notably CIBC's fellow Big Six members, Canadian income investors could do worse than to get out their calculators and start combing through this stock's multiples to see whether it's as good an investment as it looks.

Banking on financials is a numbers game

Currently selling at $116, CIBC stock is about midway between its 52-week low and its 52-week high. While it could be better value, the fact is that today's price isn't a bad entry point for one of the best defensive stocks on the TSX.

Currently changing hands at a discount of 19% compared to its future cash flow value, CIBC is seeing a swell, as investors scour the stock markets for stability and passive income. Add in a P/E of 10.5 times earnings, and CIBC is looking like really good value right now.

But it's not all that straightforward with this stock. CIBC's PEG of 5.5 times growth is much too high a ratio for a stock that has such low growth ahead of it. Given a rather small 1.9 % expected annual growth in earnings over the next one to three years, you might want CIBC to have a lower PEG than that. This goes hand in hand with a pretty so-so 15% return on equity last year. In short, this is a slightly stagnant stock at the moment, and therefore not one for growth investors.

However, CIBC's P/B ratio of 1.7 times book is level with the Canadian banking industry average, so it can't be faulted there. Value investors will therefore need to weigh whether a moderate discount and a decent P/E make up for a slightly overheated financials market and low growth.

Healthy balance sheets and dividends

With economic uncertainty everywhere you look these days, investors have a tough call to make. While telecommunications and tech seem to be seeing some volatility as investors dither over future prospects, financials remain the backbone of the TSX, along with stable miners and healthy energy stocks.

It's no wonder, then, that CIBC is generating a lot of buzz at the moment. It's a fairly healthy stock, holding an acceptable amount of non-loan assets, and this kind of stability means a lot in today's highly variable economic climate. Fear in the market definitely seems to be steering stock pickers towards entities with realistic balance sheets like CIBC's.

What really seems to be working for Canadian investors, though, are dividend yields. Solid, passive-income stocks seem to be the order of the day, with a lot of air time given to companies that can show would-be investors that payments are safe to bet on. CIBC is currently paying a dividend yield of 4.57%, making this just the ticket for risk-averse investors looking for regular income.

The bottom line

All told, CIBC stock is good value at present, going by its share price versus future cash flow, P/E ratio, and price-to-book ratio. What really makes this stock one to own, though, is that +4% dividend yield, which makes this a good choice for anyone looking to pad their TFSA or add passive income to a retirement fund such as an RRSP or RRIF.

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