On the Hunt for Income? Add Canadian Imperial Bank of Commerce (TSX:CM) Stock to Your Portfolio Today

Description

Back in March, I'd discussed whether investors should buy **Bank of Montreal** (TSX:BMO)(NYSE:BMO) or **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). In the article, I recommended investors go with the undervalued BMO stock. Since March 17, CIBC stock has been relatively flat, while BMO stock is up over 5%. CIBC stock has dropped 3.8% in 2018 as of close on July 26. For investors seeking income ahead of the next round of bank earnings, CIBC is my pick today.

Last year, the third-quarter earnings season sparked a surge for Canadian bank stocks, which powered the TSX to record highs. Earnings have been very positive in 2018 so far, but there is uncertainty over trade policy, Canada housing, and the impact of higher interest rates on consumers. More conservative investors may be seeking higher dividends as we look to the latter months of 2018.

In this instance, CIBC is a perfect stock. The bank last announced a quarterly dividend of $1.33 per share, representing a 4.4% dividend yield. This is the best yield out of all of the Big Six Canadian banks.

CIBC is slated to release its third-quarter results on August 23. In the second quarter, the bank posted very positive earnings across the board, particularly in its U.S. segment.

Adjusted net income climbed 26% year-over-year to $1.34 billion and adjusted diluted earnings per share rose 12% from the prior year to $2.95. Its U.S. Commercial Banking and Wealth Management segment reported net income of $138 million, which represented a 431% increase from Q2 2017. This was mostly due to the inclusion of CIBC Bank USA that began in the third quarter of 2017. Earnings have also received a boost from U.S. tax reform.

CIBC's Canadian Personal and Small Business Banking segment posted net income of $584 million, which was up 16% from the previous year. Profits in Canadian retail banking were boosted by volume growth, improved spread with higher interest rates and higher fees. The Canadian Commercial Banking and Wealth Management segment also saw net income rise 9% year-over-year to $310 million. Capital Markets was the only segment to struggle reporting net income of $249 million, which was down 7% from the prior year.

Analysts at CIBC have projected that the bank will be forced to contend with slower growth in its mortgage book in the second half of 2018. This is something that investors should brace for across the spectrum, although higher interest rates should boost margins on loans. “When we take a look at the second half, we continue to see that there will be origination decline,” CIBC Head of Personal and Small Business Banking Christina Kramer said during the Q2 conference call. “Probably in around 50 per cent range relative to the same period last year.”

This will be something to watch for when CIBC releases its third-quarter earnings in August. For the time being the stock remains the best option among the Canadian banks for income investors.

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