1 Top TSX Index Banking Stock to Buy Now and Beat a Recession

Description

It's that time of the economic cycle when investors need to check their risk tolerance and decide whether or not to move into more defensive positions — although, given the past week's economic machinations, it would appear that such a period of introspection should probably have been a few months ago.

While the outlook for 2019 has been suitably gloomy in recent months, the sudden plunge just before Christmas was perhaps beyond the predictions of most stock market commentators. Is it too late to change tack? It's been the fairly widespread opinion that things may get a little lean next year, so a lot of Canadian investors may already have been eyeing defensive stocks and should already have switched to less-risky investments.

However, if you've been caught out, or simply haven't had the time to take a look at your personal investment portfolio, the following stock represents the kind of ticker you may want to stay invested in while the fiscal waters continue to get choppy. If it's already in your basket of sturdy dividend payers, take heart that you're holding shares in one of the top defensive banks listed on the TSX index.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

Looking for a decent defensive dividend stock should take three things into account (beyond the standard good vs. bad value); they are: track record, growth, and debt. The first will tell you how sturdy those dividends are likely to be, while the latter two will tell you whether those dividends might be likely to grow, and how risky your investment is. While there are, of course, far more pieces of data than just these, the following snapshot gives a workable indication of whether a dividend stock is a strong buy.

Let's address CIBC's track record first. A one-year past earnings growth of 11.4% and five-year average past earnings growth of 10.8% beat the financial industry averages of 8.9% and 7.9% for the same respective periods. This, plus stable 10-year dividends, shows that CIBC is perfectly in line with (in fact, just above) the rest of the TSX index banking sector and a reliable source of regular passive income.

A great track record, but is CIBC good value?

Having shed 4.47% in the last five days, CIBC is indeed a value opportunity par excellence. While a PEG ratio that's up at twice growth shows that CIBC is perhaps not as good value as it could be in this regard, its P/E ratio of 8.6 times earnings beats both the market and industry, while a P/B of 1.4 times book is only a shade above both.

To go back to growth specifically, CIBC's 4.3% expected annual growth in earnings isn't the cheeriest outlook among the financials sector, but it's both positive and normal. Meanwhile, in terms of debt, CIBC ticks all the boxes that indicate a healthy balance sheet: low non-loan assets and a good allowance for bad loans, and a low level of said bad loans (currently below 2%) all go towards making this a strong pick for the risk-averse investor.

The bottom line

A dividend yield of 5.4% is just what the doctor ordered in these uncertain times, making CIBC a true gem of a defensive passive-income stock. Its beta of 1.04 indicates market-level volatility, which is just right for the risk-averse Canadian investor who wants their stocks to move in line with the rest of the TSX index, while its share price is discounted by 33% compared to its future cash flow value.

It's got good value, high dividends, and low volatility: defensive dividend stocks don't get much better than this.

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