An Oversold TSX Index Stock With a 5% Yield to Buy Now and Hold for 10 Years

Description

The TSX Index is finally giving investors a chance to pick up some top quality dividend stocks at reasonable prices.

What's going on?

The trade battle between the United States and China just took a negative turn and put a halt to the 2019 rally in the stock market. As investors book profits and send cash to the sidelines, some stocks are starting to appear oversold and pay you well to way for the next turnaround.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see why it might be an interesting pick for your portfolio today.

Valuation

CIBC trades at 9.4 times trailing 12-month earnings. That's the type of multiple you might expect to see in a recession or even during a financial crisis and is well below the ratio investors are paying for the four other large Canadian banks.

A prolonged trade battle with increasing tariffs between the U.S. and China could certainly nudge the North American and global economies into recession, but things are still rolling along quite nicely for CIBC in Canada and the United States.

Risks

The big threat to the bank would be rising unemployment, as that could potentially trigger a wave of loan defaults and a housing crash in Canada. For the moment, the job markets in Canada and the U.S. are in good shape.

CIBC is widely viewed as being the most exposed to an economic rout in the Canadian market due to its large mortgage portfolio. Canadians are certainly carrying significant debt levels, and a good chunk of the leverage is connected to housing.

The decision by the Bank of Canada and the U.S. Federal Reserve to halt rate increases should help out borrowers with variable-rate loans. In addition, a flight to government debt is reducing bond yields and that has an impact on fixed-rate mortgages. The banks are now cutting their mortgage rates, which should help the Canadian housing market navigate a soft landing.

CIBC is well capitalized with a CET1 ratio of 11.2%, so there shouldn't be any concern about the company's ability to ride out a rough spell.

Dividends

CIBC reported solid results for fiscal Q1 2019 and the bank remains very profitable with adjusted return on equity of 16%.

The company raised the quarterly dividend from $1.36 per share to $1.40 earlier this year, so management can't be too concerned about the revenue and profits outlook.

Should you buy?

At the time of writing, CIBC trades at $109 per share. That's still above the $101 it hit in late December, so we could see additional downside if the broader market correction picks up steam.

However, investors who buy today can already pick up a steady 5% yield, so it might be worthwhile to start nibbling on any additional weakness and potentially add to the position if the market gets silly. If you have a buy-and-hold strategy, CIBC is starting to look oversold.

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