



Is CIBC (TSX:CM) Stock a Great Buy at a 5.2% Yield?

Description

History shows that you can't go wrong buying the big Canadian banks for long-term investing when they're [attractively valued](#). **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) stock was already non-expensive when it traded at about 9.2 times earnings before it reported its quarterly results. However, the market is giving investors an even better opportunity.

Why CIBC stock fell after reporting earnings

After reporting its fiscal Q2 2019 results on Wednesday, CIBC stock became 4.4% cheaper from a stock price perspective. The dip is the market's reaction to the bank's expectation of no earnings growth this fiscal year (which ends in October).

The drag on earnings is due to increased investments and expenses, which offset revenue growth of 1.8% for the quarter against fiscal Q2 2018. For the quarter over the same period in the prior year, CIBC's adjusted diluted earnings per share increased 0.6% to \$2.97.

Medium term, CIBC guides for growth of 5%, which is below its [big Canadian peers](#) that are expected to have growth rates of roughly 6-8%.



Why CIBC stock can still be a great buy

Things don't sound rosy for CIBC right now. However, the stock can still be a great buy.

At \$107.21 per share as of writing, CIBC stock trades at a price-to-earnings ratio (P/E) of about 8.8, which is cheaper than its long-term normal P/E of 9.2. This means that down the road, there's potential for multiple expansion.

Assuming the stock takes three years to normalize, the P/E multiple expansion will give a roughly 1.5% boost per year to the stock price (equating to a total boost of about 4.4%).

More importantly, CIBC stock offers an above-average yield to compensate for its slow growth. At writing, it's good for a safe dividend yield of 5.2%, which is supported by a sustainable payout ratio of 46%.

Assuming a longer-term growth rate of 5%, the 5.2% yield, and the 1.5% boost from multiple expansion, CIBC can still deliver long-term returns of more than 11% per year! That's a great buy for an A-grade, high-margin, and conservative business.

Foolish takeaway

CIBC stock is a great value buy right now, especially for income investors. However, it can still experience further dips. Interested investors should consider buying some shares of the stock now with the idea of backing up the truck should it decline closer to the \$100-per-share level or lower.

As of writing, **Thomson Reuters** has a mean 12-month target of \$124 per share, which represents near-term upside potential of more than 15%, while long-term returns of about 11% are certainly within reason.

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