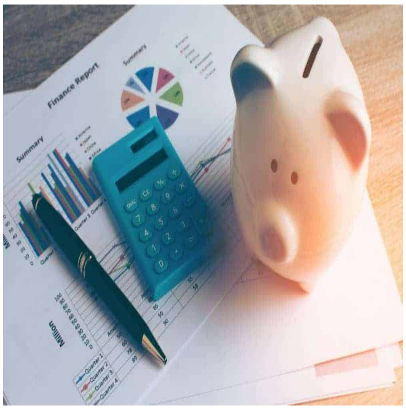

This Top Dividend Stock Is Selling Cheap: Time to Stash it in Your TFSA?

Description

When is the best time to buy Canada's top bank stocks? In my view, you should buy when their dividend yield moves above 5% due to sharp selling pressure.

The logic behind this strategy is simple: Canada's biggest banking stocks always recover from dips, and any weakness usually presents a great opportunity for long-term investors investing through their Tax-Free Savings Accounts (TFSAs).

I find **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) offering a similar opportunity these days. Its shares have fallen more than 8% in the past one month and are down about 18% from the 52-week high. That weakness has taken the lender's forward dividend yield close to 5%. But before making a buy call for your TFSA, let's see what's causing this dip.

A weak Q2 earnings report

The biggest negative factor that is pressuring CIBC stock these days is the lender's weak earnings report for the second quarter. Last week, CIBC reported that its profit for the period fell 2.4%, led by a slowdown in its flagship Canadian consumer-banking division. The bank also faced pressure on its domestic mortgages and on its net interest income at a time when provisions for loan losses were rising.

Investors got panicked to see CIBC's Canadian mortgage book shrink for two straight quarters amid concerns that the housing slowdown and the Bank of Canada's earlier rate increases have started to hit the lender's portfolio.

Among the top Canadian lenders, CIBC is the smallest, but it has the largest exposure to Canada's mortgage market. Due to this vulnerability, the lender has often been the target of speculators, keeping its share price depressed and at a considerable discount when compared to its peers.

CIBC’s CEO Victor Dodig told analysts and investors on a conference call that he expects earnings per share (EPS) this year to be relatively flat given market conditions and increased spending to modernize the bank: “Longer term, the execution of our strategy will allow us to deliver on all of our financial targets over time, including our medium-term EPS growth target of 5-10%.”

Should investors believe Dodig and snap up CIBC stock? In my view, that wouldn’t be a bad idea. The fear that CIBC’s earnings will collapse due to softening housing market is purely speculative. Canada’s housing market, after going through a correction, is stabilizing, and there is a no sign of a hard landing for the market, which has been growing for the past decade.

Trading at $102.77 and with an annual dividend yield of 5% at the time of writing, CIBC stock looks cheap for TFSA investors. Its current dividend yield is one of the highest among the major banks. The bank pays a $1.4-a-share quarterly dividend, which has been growing consistently.

Bottom line

When compared to analysts’ consensus price target of $124.43 for the next 12 months, CIBC has the potential of a 23% upside move. History tells us that top banking stocks rebound quickly once they have taken a hit. I expect more weakness in CIBC stock in 2019, but a plunge more than 20% from the 52-week high will be a good buy signal.

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