Should You Buy CIBC (TSX:CM) Stock for the 5.4% Dividend?

Description

Dividend stocks are back in favour this year as investors seek out better yield than those available from GICs and other alternative investments.

The result has been a rally in many of the popular income picks, but value is still out there and several stocks currently offer above-average yield with payouts that continue to grow.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if it deserves to be in your portfolio today.

U.S. expansion

Canadian Imperial Bank of Commerce (TSX:CM) (NYSE:CM) just announced a deal to buy Milwaukee-based Cleary Gull, a boutique investment bank. The purchase follows CIBC's US$5 billion acquisition of PrivateBancorp in 2017 as the bank expands its reach into the United States amid a push to diversify its revenue stream. Cleary, Gull specializes in middle-market investment banking activities with a focus on providing services to family and entrepreneur-owned businesses.

Undervalued?

CIBC's shares trade at 9.1 times trailing 12-month earnings — a multiple you might expect to see during a recession or even a pending financial crisis. If all the Canadian banks traded at a similar value, it might not come up on the radar, but CIBC's larger peers are trading at multiples of 10.5-12.5 times earnings.

A small discount to the bigger Canadian banks is expected, but the gap might be overdone. One reason is connected to CIBC's heavy reliance on the Canadian housing market. The bank's Canadian residential mortgage portfolio is quite large on a relative basis, and some analysts see this as a big risk in the event that the Canadian housing market tanks.

A surge in defaults and a plunge in home prices would be bad, but that isn't likely to happen. Falling mortgage rates and a halt to interest rate increases in Canada have removed some of the threats to the housing market, and pundits generally expect to see a soft landing.

Dividend

CIBC raised its dividend earlier this year and ongoing increases should be on the way. The company remains very profitable despite missing analyst earnings expectations in fiscal Q2 2019. The current quarterly payout of $1.40 per share provides an annualized yield of 5.4%.

Should you buy?

CIBC trades at $103 per share compared to $124 last September. Additional downside could be on the way if the broader equity market pulls back or if CIBC's next quarterly earnings report comes in weaker than expected. However, investors who buy today can pick up a solid yield and get paid well to ride out any additional volatility.

If you have some cash available to put to work in your dividend portfolio, CIBC deserves to be on your radar.

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