Dividend Investors: Should You Buy Canadian Imperial Bank of Commerce (TSX:CM)?

Description

The Big Five Canadian banks are all worth serious considerations for investors, but not necessarily for the same reasons. Those looking for the highest-yielding one in the bunch will have to turn their attention to **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which currently offers a juicy 5.59% dividend yield, higher than that of any of its similarly sized peers. Of course, yield isn't everything, and it isn't obvious whether CIBC has the tools necessary to offer income seekers what they need moving forward. Should investors purchase shares of the Toronto-based company for its dividends?

Troubles in the housing market

CIBC is more focused on its domestic operations than almost any of its competitors. This, of course, comes with a few advantages. The firm is able to operate more efficiently than smaller competitors while amassing one of the largest market shares in the industry. However, the lack of diversification CIBC shows is also a weakness. The company is more exposed to domestic troubles than many other of the big Canadian banks. Case in point: the financial institution has made the lucrative housing market in major urban centres a prime target of its lending strategy. As long as this market is firing on all cylinders, CIBC has little to fear.

But when things start going awry, the company's revenues and earnings could take a hit. CIBC's reliance on the housing market has been put to the test in recent months with a decline in mortgage rates. A weaker domestic economy has also played a role in casting doubt on the firm's ability to continue generating strong revenue growth. According to one of the firm's top executives " in the large urban markets, pullback in activity has been more pronounced and more prolonged than we assumed." These headwinds have dragged the firm's shares down somewhat significantly. CIBC has performed worse than most of its peers year to date on the stock market.

Reasons to be optimistic

Despite these troubles, CIBC continues to deliver strong financial results. The firm's third quarter showed a slight year over year and sequential increase in revenues, net income, and earnings per share. Perhaps more importantly, though, CIBC managed to beat analyst estimates. Investors should also be encouraged by the fact that the bank has been making an effort to decrease its exposure to the Canadian market. CIBC expects to get to a point where it generates about a quarter of its revenues from abroad (mostly from the U.S.).

Finally, CIBC currently boasts excellent valuation metrics. At writing, the firm trades at just nine times trailing and eight times future earnings. Given the firm's position in the Canadian market — and its efforts to increase its exposure to international markets — it might be worth considering purchasing shares of CIBC at current levels.

The bottom line

Over the past five years, CIBC has raised its dividends by 40%. The firm's dividend-payout ratio currently sits just under 50%. Despite recent obstacles, CIBC remains one of the top players in the Canadian banking industry and will likely retain its position in the coming years. Further, the firm's over reliance on the Canadian market will probably decrease as well. CIBC is still a stock dividend-oriented investors should consider buying.

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Date
2025/08/15
Date Created
2019/09/06
Author
pbakiny