Can Canadian Imperial Bank of Commerce (TSX:CM) Stock Double Your Money?

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), which is commonly known as CIBC, has recovered nicely by roughly 13% from a low of about $98 to $111 per share. The return already beats the long-term Canadian stock market average return of about 7% per year in merely two months.

The Big Six Canadian banks are regulated and maintain strong profitability throughout business cycles. However, CIBC, which ranks fifth in size, is the laggard among them. The bank often trades at a lower-than-average valuation. Therefore, its dividend yield tends to be higher than the rest. That's where CIBC could shine.

Can you double your money with CIBC?

CIBC's big yield can double your money in time because its dividend is secured by stable earnings and a payout ratio of about 50%. So, technically, even if the earnings were to drop 50%, its dividend would still be covered. In the last recession, which was triggered by a financial crisis, CIBC's adjusted earnings per share dropped nearly 31% over a two-year period.

The fallen earnings was a temporary phenomenon. From the bottom in fiscal 2009, CIBC's earnings per share superbly doubled, essentially netting a compound annual growth rate of almost 8.5% per year through fiscal 2018.

As of writing, CIBC stock provides a yield of 5.17%. Assuming no price appreciation and dividend growth, which has historically occurred over a long-term investment in the stable bank, you can double your investment in a little more than 19 years.

In the past five years, the bank increased its earnings per share and dividend per share, respectively, by 6.8% and 7% per year. Going forward, slower growth is expected, perhaps a growth rate of about 5%. Assuming a 5% dividend-growth rate and no price appreciation, you can double your money in 14 years.

However, it doesn't make sense for CM stock not to go higher should it increase its dividend by 5% per year on average. This kind of dividend growth would lead to a yield on cost of close to 10% from an investment today! In the last 20 years, the stock only came close to that amazing yield once — in the last financial crisis — and it didn't last long.

Incredibly, despite scary headlines and the threat of the shut down of financial systems at the time, CIBC kept its dividend intact without dividend cuts, unlike in the U.S.

If we account for long-term price appreciation as well, we can further cut down the years it'd take to double your money in CIBC stock. However, stock prices are volatile, so I'm not going to attempt to guess where it'd be 10 years from now.

Investor's Foolish takeaway

Several factors can help you double your money in CIBC stock. The stock's growing earnings, its dividends, and the valuation you bought the stock at.

The important thing is to continue investing in quality businesses in a diverse range of industries when they're attractively priced, no matter if the stock price has gone up or down. This way you should make market-beating returns in the long haul.

Stay hungry. Stay Foolish.

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Date
2025/08/23
Date Created
2019/10/22
Author
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