Don’t Just Buy CIBC (TSX:CM) Stock for its 5.3% Yield

Description

Canadian banks are popular for their mix of diversified assets, reliable dividends, and a surprising amount of growth in so saturated a market as blue-chip financials. However, 2019 was a tough year for banks, as they showed their cyclical nature. Value investors still have an opportunity to lock in a richer yield. Today, we’ll take a look at a Bay Street banker with a higher yield than its peers.

A 5.3% yield is what stands out when new investors building income portfolios first look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) in comparison with other big Canadian lenders. However there are a few more reasons to buy than just passive income. Throw in a projected 16.8% capital appreciation over the next five years, defensive market cap, and acceptable allowance for bad loans, and CIBC is a top low-risk, buy-and-hold stock.

Attractive valuation with low market ratios

Trading at an estimated 34% discount compared to its fair value in terms of future cash flow, CIBC is good value for money. Its fundamentals compare favourably with the Canadian banking sector as well. While its price to book matches the banking sector point for point, CIBC’s P/E is considerably lower, indicating a strong buy for the value-conscious investor looking to buy a bank stock once and forget it.

Are you bullish on the Canadian economy — more so than on our neighbours’ economies? For lower foreign market exposure, stack shares in CIBC ahead of its Big Five peers. And while growth is not necessarily a facet of a bank stock, CIBC is nevertheless looking at 2.25% annual growth in earnings for the foreseeable future. A 48% total return by 2025 makes for a richly rewarding stock just right for a new income portfolio.

Lower international risk

CIBC is less exposed to uncertainty in the U.S. economy than heavily Americanized banks such as **TD Bank**. A CIBC stock investment likewise does not carry the type of geopolitical risk from instability in the Pacific Alliance bloc that an investment in **Scotiabank** adds to an income portfolio. Funded primarily by domestic customer deposits, CIBC has a low level of liability, making it suitable for low-risk investing.

Compared with CIBC, one of the top two bank's in Canada, TD Bank, ticks a few of the same boxes: a 4% yield is a level of magnitude lower but still suitable for a long-range dividend portfolio, while projected total returns by 2025 could be as high as 70%. TD Bank stock is not as cheap as CIBC, however, with a P/B a little over the sector average, and its U.S. exposure may not sit well with investors that are bearish on our southern neighbours.

The bottom line

For investors bullish on the Canadian economy, and with little chance of an interest rate cut on the horizon, CIBC is a top stock to buy and forget. Its lower foreign exposure compared to its peers may mean a lower rate of growth, though this facet of its business lowers the potential for economic turbulence outside Canada. Investors looking for great value and a richer yield have a strong buy here.

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