TFSA Investor: Is CIBC (TSX:CM) Stock a Buy for the 5% Dividend Yield?

Description

The **TSX Index** is trading near its all-time highs, which has driven up stock prices and put pressure on the yields investors can get on some of the more popular dividend stocks.

Fortunately, there are a few deals available among the top companies in the Canadian stock market. Let's take a look at one stock that might be an interesting pick today for an income-focused TFSA portfolio.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) trades at just 9.7 times trailing 12-month earnings, compared to multiples in the range of 11-12 times for most of its large Canadian peers.

CIBC arguably carries more risk than the other members of the Big Five banks due to its large exposure to the Canadian residential housing market.

CIBC finished fiscal 2019 with a mortgage portfolio of more than $220 billion and has a market capitalization of about $50 billion.

This compares to **Royal Bank**, which finished fiscal 2019 with mortgages of $302 billion, but is three times the size of CIBC with a market capitalization of $150 billion.

As a result, it makes sense that the market would allocate a bit of a discount to CIBC given the higher potential hit on a relative basis if the housing market crashes.

CIBC is well capitalized, with a CET1 ratio of 11.6%. In addition, the company has made more than US$5 billion in investments in the United States in the past couple of years to diversify the revenue stream. CIBC now gets about 17% of adjusted net income from the U.S., putting it at the same level as Royal Bank.

Risks

High debt among Canadians is worth watching. The average person in the country now owes nearly $1.72 for every dollar in disposable income.

In the event we hit a major economic downturn and unemployment shoots up toward levels seen in the last recession, defaults on home payments would likely rise.

That said, the economy is in decent shape and borrowing rates are expected to remain low for the foreseeable future, which should help borrowers start to get their finances in order. While a housing crash is possible, a soft landing is more likely the end result.

Opportunity

CIBC is a very profitable company. The business generated adjusted net income of $1.3 billion in the most recent quarter and return on equity (ROE) was 14.2%.

To put this in perspective, the average ROE for U.S. banks is 11-12%. In Europe, ROE is only about 6%, so CIBC is doing well. CIBC has indicated it could make additional acquisitions in the United States in the coming years, especially in the wealth management segment, which would provide more balance to the revenue stream.

Dividends

CIBC raised its dividend twice in 2019, and ongoing increases should be in line with earnings per share growth. The current payout provides a yield of 5.3%.

Should you buy CIBC?

CIBC appears undervalued right now. At the time of writing the stock trade at $108 per share, which is above the August 2018 low around $98, but still well off the 2018 high around $124.

Investor who buy now can pick up a solid yield while they wait for better days. A dip back below $100 would be viewed as an opportunity to add to the position.

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2. Dividend Stocks
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