Earn $5,200 in Passive Income Per Year With This 1 Dividend Beast

Description

We are always looking for ways to increase our income without breaking our backs in the process. Dividend stocks remain one of the most effective channels of earning income passively, but care should be taken in where one should invest, lest the investment turns bad and lands you in the red.

If you are looking for a reliable dividend stock with plenty of upside potential, consider adding **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock to your portfolio.

Dividend beast with plenty of upside

As of current, the bank offers an annual dividend yield of 5.21%, and the company's past payouts to its investors have largely been consistent. At current rates, if you were to invest $100,000 right now, you could be bringing in an attractive passive income of $5,200 a year — or around $433 a month.

Investors would also be happy to hear that investing in it right can also potentially offer plenty of upsides. Trading at a forward P/E of just 8.86, CIBC stock is quite undervalued right now and is a discount purchase given its likely future earnings.

And what's more, the bank has been steadily expanding its presence into the far larger U.S market, with over $5 billion spent in recent years to this end. As a means to improve efficiency and reduce costs, the bank has also invested heavily in technology for its process, allowing it to trim down its workforce.

The bank also boasts a solid balance sheet, with a return on equity (ROE) of 14.2% and a year-over-year increase in total revenue. A high PEG ratio means a higher expected growth rate, and with a PEG ratio of 2.89 for the next five years, CIBC is expected to perform better in this regard compared to its peers.

Future risks

If the global economic slowdown and the on-going trade-war weren't enough, heightened tensions in the Middle East and the outbreak of the Coronavirus pandemic now threaten the world's markets.

If unemployment rates rise in the country, and the housing market tanks, it could spell trouble for the banking industry. This especially holds for CIBC due to its comparatively larger exposure to the Canadian residential housing market when compared to the other Big Five banks.

However, such a scenario seems unlikely for two reasons. First, Canada's unemployment rate has struck a historic low, and it is unlikely to rise given present conditions. Second, low interest rates and declining bond yields are enabling new buyers to gain entry into the housing market while also helping those already with mortgages to renew them at more favourable rates.

Summary

An undervalued stock and high potential growth rate make CIBC stock a more fitting buy given the current market conditions compared to its larger banking peers in the Big Five. Investors are likely to benefit immensely not just from its dividend, but also the likelihood of its future appreciation.

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