Should You Buy CIBC (TSX:CM) Stock for the 7% Dividend Yield?

Description

The share price of **CIBC** (TSX:CM)(NYSE:CM) is down to the point where income investors can pick up a 7% dividend yield.

Let's take a look at the current situation in the economy and the potential turnaround timeline to see if CIBC deserves to be on your buy list right now.

Housing threat

Canadians entered the downturn with record levels of debt. The sharp rise in unemployment now risks triggering a meltdown in the housing market.

CIBC has the highest relative housing exposure among the big Canadian banks, so it would probably take a larger hit than its peers if prices crash. At the end of fiscal Q1 2020, CIBC had roughly $220 billion in Canadian residential mortgage loans on its books. At the time of writing, the bank has a market capitalization of about $37 billion.

By comparison, **Royal Bank** finished Q1 2020 with $300 billion in mortgages but has a market capitalization of $120 billion.

The latest report by Canada Mortgage and Housing Corporation (CMHC), a government agency that insures mortgages, indicates that 12% of Canadian mortgages have received deferrals. CMHC says the percentage could rise to 20% in the coming months. Delayed payments put cash flow pressure on the banks, and in the event the property owners are still unable to pay after the six-month deferral expires, the market could see a flood of listings. The resulting drop in prices might put many recent buyers under water.

CMHC predicts the average Canadian house price could drop 9-18% over the next 12 months.

Government aid

Measures put in place by the government to provide businesses and households with financial support should reduce the number of bankruptcies. In addition, CMHC announced plans to buy buying up to $150 billion in mortgages to ensure the banks have adequate liquidity to keep lending. This is expected to mitigate the impact.

As the provinces slowly re-open the economy, the hope is that jobs will return quickly, and most people will have the cash flow needed to pay bills again by the end of the year. The next few months are going to be difficult, but the hope is that 2021 will bring a strong economic recovery.

Economic outlook

A V-shaped economic rebound would likely avoid a crash in the housing market. A U-shaped recovery might result in the CMCH's prediction landing somewhere in the middle range. The worst-case scenario would be the dreaded L-shaped depression where no rebound occurs for the next few years.

The IMF thinks a solid global recovery will occur in 2021. Stephen Poloz, the governor of the Bank of Canada, also has a positive outlook. He recently said he thinks the Canadian economy will recovery quickly. Poloz indicated the Canadian economy is currently tracking the central bank's best-case scenario for the crisis.

Should you buy CIBC?

The dividend should be safe at all the large Canadian banks, including CIBC. The company held the distribution steady during the Great Recession and the CEO indicated the company isn't considering a cut.

CIBC trades at $82.50 per share and provides a 7% yield at the time of writing. A drop back below $70 could happen on another major market correction, but the stock appears reasonably priced today.

If you have some cash looking for a reliable high-yield pick, CIBC deserves to be on your radar. Five years from now, the stock price should be back above $100, and you get paid well to wait for the rebound.

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