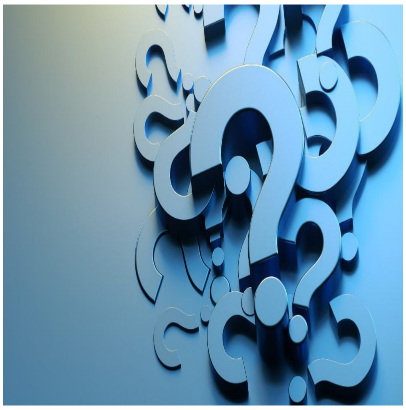

Should You Buy CIBC (TSX:CM) Stock Right Now for the 6.25% Dividend Yield?

Description

Pensioners and other dividend investors continue to search for top stocks that pay reliable dividends and offer above-average yields.

Canadian bank stocks often serve as anchor positions in dividend portfolios. The stock prices are down this year due to the pandemic, and this has investors wondering if they should add the banks to their holdings.

Let's take a look at **CIBC** (TSX:CM)(NYSE:CM) to see if it deserves to be on your buy list right now for a self-directed TFSA or RRSP.

Earnings

CIBC booked $1.4 billion in provisions for credit losses (PCL) when it reported fiscal Q2 2020 results. The funds set aside to cover potential loan losses resulted in a 71% drop in net income for the quarter compared to the same period last year.

CIBC said it provided payment deferrals on 108,000 mortgages worth $35.5 billion in the quarter. The bank also gave 6,000 business customers payment deferrals on $8.6 billion of loans.

Adjusted net income still came in at $441 million for the three months ended April 30. Return on equity was a decent 4.5%, and CIBC maintained a healthy capital position with a CET1 ratio of 11.3%.

The profit drop appears ugly, but the PCL is not an actual loss. It is simply an estimate for potential losses. A V-shaped recovery in the Canadian economy could result in a much smaller hit than anticipated. Canada added nearly one million jobs in June, and unemployment rates should continue to fall as the provinces reopen their economies.

Risks

CIBC is known for its heavy exposure to the Canadian housing market. At this point, house demand and prices remain resilient. CMHC predicts a 9-18% price drop in the next 12-18 months, so investors want to keep this in mind when evaluating the stock.

Once the six-month deferrals expire and the federal government rolls back CERB, there is a chance defaults could rise and start to put pressure on homeowners.

In the event the recovery in the job market stalls, there is a risk we could see a steep decline in home prices due to a flood of listings. This would likely hit CIBC harder than its larger peers.

Dividend

CIBC didn’t cut its dividend during the financial crisis 10 years ago, and the bank was arguably in worse shape then than it is today. Another lockdown or a crash in the housing market could put the payout at risk, but that is not the anticipated outcome in the next year.

CIBC’s current distribution currently provides a yield of 6.25%.

Should you buy CIBC stock today?

Investors should prepare for ongoing volatility in the coming months. A new surge in coronavirus cases across the United States could slow the economic recovery. The U.S. election might also disrupt equity markets later this year.

That said, CIBC should be a solid buy-and-hold pick right now for a dividend-focused portfolio. The stock trades near $93.50 per share. That’s not as good a deal as we saw in the past few months when the share price dipped below $80, but it still appears cheap. CIBC traded above $110 per share in February and was above $120 in 2018, so there is decent upside potential as the economy rebounds.

If you are searching for a reliable high-yield dividend stock, CIBC deserves to be on your radar. Five years from now the share price should be meaningfully higher than it is today, and you get paid well to ride out the turbulence.

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aswalker