Should You Buy CIBC (TSX:CM) Stock for its 5.6% Dividend Yield?

Description

There is never a bad time to buy dividend stocks. Companies with a dividend program pay you to own them, and investors can amass significant returns by holding quality dividend companies.

So, what should you look for while buying a dividend stock? The company's dividend yield should be attractive, and it should generate stable cash flows, enabling it to sustain payouts. Further, the company should have enviable growth prospects, making it a top buy for long-term investors.

Dividend stocks are also an ideal investment option for retirees who can create a passive-income stream that can grow over the years. We'll look at domestic banking giant **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to see if it is a good buy for your dividend portfolio.

A look at CIBC's recent results

Shares of Canadian Imperial Bank of Commerce are trading at $103.56, which is 11% below its 52-week high. CIBC stock gained over 12% in the last month on the back of its quarterly results. The stock is also trading 53.4% higher since it touched a multi-year low in March 2020, following the COVID-19 pandemic.

In the fiscal third quarter of 2020, the company reported adjusted earnings of $1.2 billion of $2.71 per share. Comparatively, earnings forecast earnings of $2.15 in Q3. Investment bank Credit Suisse increased its target price on CIBC stock to $102 from $95 following its earnings beat and reiterated a neutral rating.

CIBC attributed the outperformance to lower provision for credit losses and a strong performance by its Capital Markets division. Company CEO Victor Dodig said, "The resilience of our core business and continued expense discipline resulted in stable pre-provision earnings, despite a more challenging and lower interest rate environment. Included in these results is a provision for credit losses of CAD525 million, which is significantly lower than CAD1.4 billion provision last quarter."

CIBC's balance sheet and capital position remain strong with a CET1 ratio of 11.8%. The excess capital provides the firm with significant flexibility, which can be used to reinvest in its business or maintain dividend payouts.

What’s next for investors?

CM stock trades at a discount to its peer group on a forward price-to-earnings and price-to-book value basis. It is also showing signs of reversing market share losses in the residential mortgage segment, according to Credit Suisse.

On the flip side, the stock’s lower valuation is driven by its underperformance in the last two years, and the company will have to gain investor confidence to justify a higher valuation.

According to consensus EPS forecasts, CIBC’s earnings for fiscal 2021 will decline by 17% compared to fiscal 2018. In comparison, this decline stands at 7% for peer companies, noted Credit Suisse.

CIBC managed to increase its mortgage balances by 3% year over year in Q3, driven by a recovery in real estate for the months of June and July. Further, the company’s capital markets business had a good quarter, driven by strong trading activity across asset classes. It also experienced robust demand for debt-underwriting services.

The company’s focus on improving operational efficiency will drive profitability and cash flow higher, which makes a dividend cut unlikely. CIBC stock has a forward yield of 5.64%, and the company aims to achieve run-rate savings of $260 million by the beginning of fiscal 2021.

CIBC stock is well poised to move higher if the Canadian economy rebounds and gains momentum by the end of CY 2020.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise

6. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/28
Date Created
2020/09/01
Author
araghunath