CIBC (TSX:CM) Stock: Grab Dividends by the Truckload

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the highest yielding of Canada's "Big Six" bank stocks. With a 5.37% yield at today's prices, it really throws off buckets of cash. With just $100,000 invested in CIBC stock, you'd get $5,370 back in income each year. That's the kind of annual cash bonus that can make a *huge* difference in your life — particularly if you're retired.

In this article, I'll explore CIBC's high dividend yield, including its sustainability and growth potential. I'll review how "safe" the dividend is, and whether you can expect it to grow over time. We can start by looking at the payout ratio.

Payout ratio

A stock's payout ratio is the ratio of its dividends to its earnings. It tells you the percentage of a company's earnings it pays out in dividends.

In fiscal 2020, CIBC had a payout ratio of 70% (based on GAAP earnings) or 60% (based on adjusted earnings). The payout ratio based on adjusted earnings is about what you'd expect for a Canadian bank. The one based on GAAP earnings is a little high. Canadian banks generally aim for payout ratios in the 50%-60% range. An above average payout ratio isn't a good thing, but 70% is far from the level where dividend cuts become crucial to survival.

Dividend growth

CIBC's dividend growth has been a little slow compared to its competitors. According to *Guru Focus*, CM has a 6% five-year dividend-growth rate, while **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is growing dividends at 9.6% and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is growing dividends at 7.2%. CIBC has a higher yield than either of those companies, but if past trends continue, then it will have a lower yield on cost in five to 10 years. There's no guarantee that past trends will continue. But CIBC has fewer investments in high-growth foreign markets than either TD or RY, so it's not unreasonable to think that its growth will be slower than that of its competitors.

Is it actually a good company?

As shown above, CIBC has a slower dividend-growth rate than its largest competitors. This leads naturally to the question of whether it's not as good a company, and the high yield is mostly due to a justifiably beaten-down stock price.

Going by some bank-specific metrics, that's not the case. CIBC has a 12.1% CET1 ratio, which is just as good as TD or RY. That metric improved from the fourth quarter of 2019, which is a great sign. However, earnings were down 15% year over year and 13% quarter over quarter. Both of those earnings declines are worse than TD or RY in the same period. So, overall, we've got a pretty mixed picture here.

Foolish takeaway

CIBC stock has a lot of dividend potential. With a 5.37% yield, it has the most immediate income potential of any Canadian bank. Its 60-70% payout ratio is not dangerously high, so dividend income from the stock should be fairly safe. However, CIBC has weaker growth metrics than its competition. It may have a lower yield on cost in the future compared to TD or Royal Bank stock. Ultimately, the best idea may be to buy all three stocks or a Canadian banking ETF. You never know which is the best "bank for your buck," so perhaps your best bet is to buy them all.

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2. NYSE:RY (Royal Bank of Canada)
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