CIBC (TSX:CM) Stock: That Yield Won't Last Forever

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) stock currently has a monster yield of 4.7%. This makes it one of the few Canadian banks still yielding over 4%. The unprecedented rally in bank stocks this year has taken former high yielders like **TD Bank** and **Royal Bank of Canada** below 4%. CIBC, along with **Bank of Nova Scotia**, is one of the few still approaching 5%.

That's a fact worth noticing. Historically, investors have bought Canadian banks for their ultra-high yields. Banks in general tend to pay dividends, and Canadian banks have always been high yielders. But now, with bank stocks rallying, those high yields are starting to evaporate. CIBC is one of the few banks that's still pounding out massive amounts of cash to investors every single quarter. In this article, I'll explore CIBC's high yield and why it might not last long.

Investors are bullish on value

One of the reasons CIBC's yield is so high is because it's a very cheap stock. At current prices, it trades at 13.8 times earnings and 1.48 times book value. Those are low multiples even for banks. When a stock's price is low relative to earnings, it's easier for it to have a high yield. The reason is when your price-to-earnings multiple is low, your potential dividend is high as a percentage of the stock price. In fiscal 2020, CIBC had a 60% payout ratio based on adjusted earnings. So, even with the high yield, it isn't paying out out an excessive amount of earnings as dividends.

Today, investors are bullish on value stocks like CIBC. The Dow has outperformed the NASDAQ this year, and it could outperform even more when COVID-19 is over. The pandemic hurt value stocks more than tech stocks, because it forced them to close physical locations. In the case of banks, it forced them to raise their loan-loss provisions. As the economy re-opens, these risk factors will be reduced. As a consequence, value stocks may continue to rally. The result will be lower yields in the future compared to today.

CIBC's earnings are soaring

As we've seen, CIBC's stock currently has a high yield and a sustainable payout ratio. That seems like a recipe for a continued income. Indeed it is for investors who buy today. But the yield on the same stock bought in the future might not be as high. CIBC produced fantastic earnings growth in its most recent quarter. In it, earnings were up 34% compared to the same quarter a year before and 60% compared to the prior quarter. That suggests that the company is rapidly getting past the damage took because of COVID-19. If this trend continues, then the stock will continue to rise. That will produce a lower dividend yield — even if CIBC modestly raises its payout, as it has done in the past.

Foolish takeaway

Historically, CIBC hasn't been the best-performing Canadian bank. Compared to TD and Royal Bank, it has underperformed. That's beginning to change. In Q1, CM had the best earnings growth of any big Canadian bank. If that continues to be the case, then its stock may soar — and its current high yield may shrink.

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