This 4.2% Dividend Stock Is a Must-Have

Description

A dividend stock offering a 4% yield isn't impressive by any means. But when that dividend is extremely reliable, and the underlying business is stronger than ever, long-term investors could consider it a safe buy. In this environment, safety could be worth more than plain yield.

Here's why one of Canada's bank stocks could be such a buy-and-hold opportunity.

Canada's bank stocks

The story about Canada's bank stocks has turned completely upside down since last year. In August 2020, investors were worried about the housing market, economic depression, and "mortgage deferral cliff." Noteworthy investors like Steven Eisman bet heavily against the sector. Today, the sector is stronger than ever. Profits and dividends are sky high.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is arguably one of the best bank stocks for anyone looking to generate significant value through dividends and share price appreciation. The stock is up by about 37% year to date, outperforming **TD Bank** and **Royal Bank of Canada**.

Impressive dividend yield

The stock has been on an impressive run after a tumultuous ride in 2020. Last year was probably the best time to add CIBC stock to your long-term portfolio.

In addition to share price appreciation, Canadian Imperial Bank of Commerce also boasts of an impressive dividend track record that dates back to 1868. The fifth-largest bank offers an attractive dividend yield of 4.15% — the highest compared to TD Bank and RBC.

Growth prospects

CIBC boasts of a diversified capital market business that delivered strong, high-quality growth last year. Its trading business continues to deliver robust results fueled by economic growth from the pandemic.

Consequently, the bank commands the highest profit growth outlook among its peers. Its net income increased 321% in the second quarter. Net income in the first half of the year was up by 104.24% year over year; this explains why it is able to pay a 4.15% dividend.

Canadian Imperial Bank of Commerce is a cheap dividend stock going by its price-to-sales multiple of 3.68 and price-to-book multiple of 1.7. A dividend yield of 4.15% makes it a better play compared to 4% for TD bank and 3.42% for Royal Bank of Canada. In addition, the stock has outperformed the trio going by the 30% plus gain year to date.

CIBC's robust growth prospects should put it on the top of your list of long-term compound growth stocks.

Bottom line

There are plenty of dividend stocks offering 4-6% returns right now. But most of these companies face economic risks or are relatively overvalued in this market environment. That makes them less reliable over the long term.

By comparison, Canada's banking sector is in a much better position. Stocks like CIBC have robust balance sheets, low valuations, attractive dividends, and bright prospects for growth ahead. If you're looking for a dividend-growth "compounder" to buy and hold, CIBC stock could be an ideal bet.

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