



## 2 Canadian Bank Stocks Yielding Over 3.5%

### Description

Canadian bank stocks, especially the Big Five, have created massive wealth for long-term investors. These companies have performed exceptionally well, even during economic downturns, including the financial crisis of 2008 and the COVID-19 pandemic. Their strong balance sheet and conservative lending strategies have held domestic bank companies in good stead, allowing them to generate predictable cash flows across business cycles. This, in turn, has enabled companies to offer investors who aim to create a passive-income stream a generous yield.

We'll take a look at two such Canadian bank stocks — **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) and **Laurentian Bank** ([TSX:LB](#)) — that have [forward dividend yields](#) of over 3.5% right now.

### CM stock has more than tripled in the last decade

Shares of Canadian Imperial Bank of Commerce have gained 214% in dividend-adjusted returns since September 2011. It has outpaced the **TSX** that has returned 140% in this period. Despite its market-beating gains, CM stock provides investors with a forward yield of 4.1%.

Valued at a market cap of \$64 billion, CIBC is one of the largest companies in Canada. While several analysts and investors were expecting financial services companies, including CIBC, to lose steam amid the pandemic, this banking giant managed to increase sales to \$18.66 billion in 2020, up from \$18.51 billion in 2019. Moreover, while unemployment rates spiked across Canada in mid-2020, the rollout of federal benefits and a low-interest-rate environment empowered CIBC to maintain its top-line numbers.

This momentum continued in the fiscal third quarter of 2021 (ended in July), as CIBC's sales rose by 7% year over year to more than \$5 billion. Revenue growth was driven by robust performance across business segments. Due to lower provisions for credit losses, the bank's earnings per share rose by a stellar 45% year over year to \$3.93. Its return on equity stood at 17.9%, and its capital position remains solid at 12.3%.

CIBC explained it saw an improvement in the operating environment over the course of Q2 due to the easing of COVID-19-related restrictions and an increase in the pace of vaccination rollouts across North America.

Analysts tracking the stock have a 12-month average price target of \$162, which is 12% higher than its current price. After accounting for its dividend yield, annual returns will be closer to 16%.

## Laurentian Bank stock has underperformed

Unlike CIBC, Laurentian Bank has underperformed the broader markets in the last decade and has returned less than 50% to investors since September 2011. LB also reduced its quarterly dividend payout from \$0.67 per share in March 2020 to \$0.4 per share last June. Despite this rollback, the stock offers a dividend yield of 4% to investors.

In the [fiscal Q3 of 2021](#), the company's net income soared by 25% year over year to \$59 million while revenue growth stood at 3% as it reported sales of \$254.88 million. In the first nine months of fiscal 2021, LB's net income growth was significantly higher at 70%.

Laurentian Bank is well poised to manage capital and liquidity risks, as it ended Q3 with a CET1 ratio of 10.3%, which is above the minimum regulatory requirement. Analysts tracking LB stock have a 12-month average price target of \$46.7, which is 16% above its current trading price. After we account for its tasty dividend yield, LB stock can return 20% in the next year.

## The Foolish takeaway

If interest rates rise in the near term, banks will benefit from higher profit margins, which should offset the rise in the number of defaults. Further, CIBC and LB may also increase their dividends significantly in the next 12 months, as they have excess cash on their balance sheets that can be distributed among shareholders, resulting in higher payouts for investors.

### CATEGORY

1. Bank Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:LB (Laurentian Bank of Canada)

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