CIBC (TSX:CM) Stock: A 4% Ultra-Safe Yield

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the highest yielding of Canada's Big Six banks. With a whopping 4.46% dividend yield, it has a lot of potential to add income to your portfolio. Canadian banks in general have pretty high yields, but CM is in a whole other league compared to its peers. The average yield on a Canadian bank stock, as measured by **BMO's** ZEB ETF, is about 3.6%. That is above average for the TSX index, and CIBC is above average, even for its high-yielding sector.

The question you have to ask yourself when you find a high-yield stock like this is whether the dividend is sustainable. Extremely high-yield stocks have a bit of a reputation for high payout ratios and poor growth. CIBC's growth is indeed fairly muted, but its payout ratio is actually low. In this article, I will explore why CIBC's dividend yield is in itself quite safe, without fully endorsing or "recommending" the stock.

CM's payout ratio

The number one metric that investors use to evaluate a company's dividend-paying ability is the payout ratio. That is dividends divided by earnings. This ratio tells you the percentage of a company's earnings that are being paid out as dividends.

How does CIBC's payout ratio stack up?

According to CIBC's 2021 earnings release, the bank paid $5.84 in dividends last year on $13.97 in earnings. That gives us a payout ratio of 41.8% — extremely low. With that kind of payout ratio, a company can keep paying, or even raising, its dividend for a long time. Technically, CM could afford to raise its dividend, even amid a period of declining earnings, although, as I'll show in the next section, that wouldn't necessarily be the best move for it to make.

Growth considerations

One reason why CIBC has such a high dividend yield is because investors do not think that it has such fantastic growth potential. The reason for this is that the bank is highly concentrated in the Canadian market. The Canadian economy is fairly strong, but the financial sector is heavily saturated by the Big Six banks already. This means that CIBC doesn't have huge growth potential compared to, say, **TD Bank**, which has a huge presence in the U.S. that is about to get even bigger with the acquisition of **First Horizon**.

According to CIBC's 2021 earnings release, the bank earned $926 million from its U.S. wealth management business compared to $6,446 in total earnings. That's only 14.8%. For comparison, about 33% of TD Bank's total income comes from the United States. So, CIBC has less geographic diversification than its peers, which may be hurting its growth.

Foolish takeaway

CIBC is a stock whose yield is both high and very well covered by earnings. If you buy the stock, your chances of seeing your payout reduced or eliminated is extremely low. Of course, the growth potential with a company like CM is limited. But if you're simply looking to add a regular cash payout to your portfolio, this stock could help you achieve your goals.

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