Canadian Imperial Bank of Commerce (TSX:CM) Stock: A Great Yield

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is not the most popular of Canada's big bank stocks. At least not with retail investors. When a poll of the most popular stocks in Canada was released last week, CM didn't crack the top 10, while **TD Bank** and others did.

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That shouldn't come as any big surprise. CIBC is one of the smallest of Canada's Big Six banks. Unlike many of its peers, it doesn't have a massive presence in foreign countries, so it has grown more slowly than they have.

Nevertheless, CIBC stock has one thing going for it: a very high yield.

At today's prices, CM stock yields a whopping 4.65%. That's a high enough yield to produce $4,650 in annual cash back on a $100,000 position! Nearly double the average yield of an average TSX stock, CM's yield can add a lot of income to your portfolio. The question is, does this make CIBC stock a buy?

The 4.65% yield explained

While CIBC stock does have a 4.65% yield, the enormity of the yield is largely a product of lacklustre historical returns. Over the last five years, CIBC stock has risen only 29%. Bank stocks were extremely strong in 2021; prior to that rally, CM was nearly flat over five years. So, as is often the case with high yield stocks, sup-par returns are a part of CIBC's big yield.

That's not the whole story, however. CIBC's dividend does have some appealing characteristics. For example, the payout ratio is pretty low. According to *MarketBeat*, CIBC has a 41% payout ratio based on last year's earnings. So, it is paying out well below 50% of its income as dividends. This gives it the ability to re-invest in its business while still throwing off a good amount of income to investors.

Why does CM yield more than other Canadian banks?

At today's prices, the average yield on Canadian bank stocks is about 3.8%. CIBC stock yields far more than that. That certainly seems to make it an attractive income investment. But does it?

There are two things you need to know about CM that make it potentially less attractive than other Canadian bank stocks:

1. **It doesn't have much of a foreign presence.** Many of Canada's banks, like TD and **Bank of Nova Scotia**, are relying on foreign markets for growth. The Canadian banking industry is pretty well saturated by the Big Six banks, so banks need to go abroad to get really strong growth. CIBC has a much smaller foreign presence than the other big banks, so it delivers less growth than they do, typically.
2. **It is very exposed to Canada's housing market.** A corollary of CIBC's lack of geographic diversification is that it has heavy exposure to Canada's housing market. Many experts think that the Canadian housing market is overheated, and this year, rising interest rates are taking a bite out of the market. If rates succeed in cooling the housing market, then fewer mortgages will be issued, and some people might default on floating rate mortgages. So, there is significant risk here for CIBC.

The above points partially explain why CIBC is a bit riskier than the average Canadian bank. However, its stock does have a high and well-covered yield. If you buy CM just for the dividend, you'll probably receive it with no problems.

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