1 Dividend Stock Yielding 4.9% Passive Income and Growth

### Description

Nothing pleases income investors more than seeing their dividend earnings grow every year. That is why dividend-growth streaks matter now more than ever. Rapidly rising inflation erodes purchasing power that earning extra income from dividend stocks can help minimize the impact.



Canada's Big Six banks will report their earnings results for the quarter ending July 31, 2022, starting this week. A key area to watch out for is the provision for credit losses (PCLs), because it has a material effect on earnings. The banks sacrificed their earnings for higher PCLs in 2020 due to the pandemic. Fortunately, credit quality didn't deteriorate.

If you want to stick to the heavyweight banking sector for passive income and capital growth, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is a solid choice. **Canaccord** analyst Scott Chan revised his adjusted earnings-per-share estimates for the banks recently by an average of 5%. However, he maintained a buy recommendation for Canada's fifth-largest bank.

At $67.21 per share (-5.85% year to date), the $61.29 billion bank pays a high 4.9% dividend. CIBC's dividend-growth streak is 11 years, and over the last five years, management has increased its dividend five times by an average 4.05% annually (year-over-year basis).

## Excess capital

CIBC had $3.5 billion in excess common equity tier-one (CET1) capital as of April 30, 2021, because the banking regulator required them to halt dividend increases due to the pandemic. The unprecedented PCL level was supposed to be the shock absorber in case of massive loan defaults.

However, it rained dividends in the banking sector when the Office of the Superintendent of Financial Institutions (OSFI) lifted the restrictions on dividend hikes. CIBC announced a 10.3% increase in dividends and a plan to buy back up to 10 million of its shares.

For fiscal year 2021, earnings increased 68.42% to $6.4 billion versus fiscal 2020. The top line or revenue grew 6.95% year over year to $20 billion. Victor Dodig, CIBC's chief executive officer, said then that the bank was investing for future growth across the organization.

Dodig further said, “The overarching theme at our bank, and our strategic focus as a leadership team is to continue to invest to grow market share at the expense of our competition.” John Aiken, an analyst with Barclays, said CIBC’s loan growth was solid in Canada and the United States. He was also confident that operating leverage would remain positive, even as CIBC invests in growth.

## Another dividend increase

Fast forward to Q2 fiscal 2022 and CIBC raised its dividend by 3.11% despite a 10-fold increase in PCL to $303 million. The anticipated deterioration of **Costco’s** credit card portfolio was the reason for the higher loan loss provision.

Still, Dodig said, “We delivered well-diversified growth across our bank in the second quarter as we continued to invest to execute our client-focused strategy and further build on our momentum.” CIBC’s Canadian Commercial Banking and Wealth Management was the shining star, as its net income jumped 20% year over year to $480 million.

## Outstanding dividend track record



Like its big bank peers, CIBC’s dividend track record is more than 100 years. The bank started paying dividends in 1868 and no headwinds could stop this practice or cause a dividend cut.

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**Date**
2025/08/29
**Date Created**
2022/08/27
**Author**
cliew