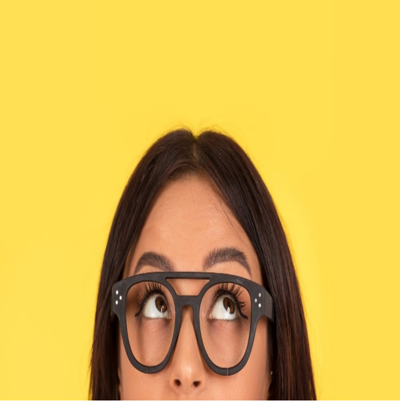

Better Buy for Income Investors: CIBC Stock or a GIC?

Description

Guaranteed Investment Certificates (GICs) have become more attractive recently. They now offer an interest income of over 5% for holding it for a year. Investors would argue that it still doesn't beat the recent inflation rate, though. *Statistics Canada* reported the inflation rate in November was 6.8% year over year.

Currently, you can get **Canadian Imperial Bank of Commerce** (TSX:CM) shares for a yield of 6.15%, which is a more enticing income than GICs. With price appreciation in the long run, you'll likely beat the inflation and increase your purchasing power.

GICs provide something that CIBC stock does not, though — guarantee of the principal. Common stocks are higher-risk investments than GICs because, in a worst-case scenario, you can lose your entire investment if the underlying business goes under.

A more common risk is that investors can experience a temporarily drop in their investments from the ebb and flow of the business cycle. So, you must be able to withstand stock volatility. For example, CIBC stock has declined 25% year to date. It is easily one of the cheapest big Canadian bank stocks available right now.

CIBC

CIBC is categorized as one of the Domestic Systemically Important Banks (D-SIB) by the Office of the Superintendent of Financial Institutions (OSFI), which ensures the big Canadian banks are adequately capitalized to ride through the business cycle — particularly recessions.

The bank's business segments include personal and business banking, commercial banking and wealth management, and capital markets. This year, CIBC missed its earnings target. Its earnings-per-share (EPS) growth objective was 5-10% but it ended up with an adjusted EPS decline of 2%.

It also failed its longer-term target. Specifically, through the cycle, it targets EPS growth of 7-10%. However, its five-year adjusted EPS growth rate was only 4.9%. That said, CIBC stock's nine-year adjusted EPS growth rate was 6.7%, which was close to the lower end of the target range.

The bank stock has been weighed down by a gloomy macroeconomic environment and a negative financial markets. This is illustrated by its assets under administration that declined 7.2% to $502 billion in fiscal 2022.

Although CIBC's earnings underperformed, its portfolio continued to grow. In fiscal 2022, its total assets rose 12.6% to $943.6 billion, deposits climbed 12.3% to $697.6 billion, and loans and acceptances increased by 14.2% to $528.7 billion.

The bank ended fiscal 2022 with a Common Equity Tier 1 ratio of 11.7%, which is sufficient to meet OSFI's capital requirement of 11% for Feb. 1. The higher capital requirement versus the normal level of 8% is to prepare for a potential recession next year.

The Foolish investor takeaway

Who is CIBC stock for? Passive-income investors looking for more income in a long-term investment might consider the big bank stock at current levels. If you have a long enough investment horizon of at least five years, you should have safety of principal as well, because the bank stock tends to increase its earnings and dividends in the long run.

CIBC is a value stock trading at about eight times earnings. At $55.32 per share, analysts believe the stock is discounted by 12%.

If you need your money back in a shorter time frame, GICs or other money market securities may be more appropriate, even if it means you will get lower income/returns.

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