



2 Rebounding Dividend Stocks That Still Look Oversold

Description

The pullback in the stock market is starting reverse course, but dividend investors still have an opportunity to add some of Canada's top companies to their portfolios at very attractive prices.

Here are the reasons why I think **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) should be on your radar.

TransCanada

TransCanada had a rough 2015.

President Obama rejected the company's northern leg of the Keystone XL pipeline, and investors pretty much dumped anything connected to the energy space.

As a result, TransCanada's shares slid most of last year and are still about 15% lower than they were 12 months ago.

Despite the Keystone setback, TransCanada still has about \$13 billion in other projects that are moving along very well and should be in service by 2018. This means revenue and cash flow should rise steadily, and management says investors can expect to see dividend increases of 8-10% per year through 2020.

That's reason enough to pick up the stock, but the story gets even better.

The market has completely written off Keystone and is giving little value to the potential of the \$15.7 billion Energy East project.

The provinces continue to bicker over Energy East, but I think the pipeline will eventually get the green light, and there is some huge upside potential in the stock if that happens. As for Keystone, the project could suddenly be back on the table if the Republicans win this year's election.

TransCanada pays a quarterly dividend of \$0.56 per share that yields 4.6%. The stock has rallied off

the lows, but investors still have a chance to buy it at a very reasonable price.

CIBC

CIBC is the baby of Canada's Big Five banks, and investors often overlook it in favour of the larger names.

The stock is also sidestepped because it has a history of big blunders. The most recent occurred during the financial crisis when CIBC had to take \$10 billion in write-downs due to bad bets on the U.S. subprime market.

Since then, the company has refocused its investments on building a stronger Canadian retail business and growing its wealth management operations. That strategy has proven to be very successful, and investors those who bought the stock during the last crash are sitting on some significant gains, even after the recent pullback.

More trouble ahead?

The shares have come under pressure amid worries that CIBC is now too reliant on the faltering Canadian economy. A total meltdown here in Canada will hit CIBC harder than its more diversified peers, but the sell-off looks like it has gone too far.

Here's why.

CIBC finished fiscal 2015 with \$17.3 billion in direct exposure to the energy sector. The drawn exposure was \$6.1 billion. That's not chump change, but more than 75% of the loans are investment grade and CEO Victor Dodig recently said oil loans account for just 2% of the bank's total loan book, so the situation looks manageable.

As for housing risk, CIBC had \$163 billion in Canadian residential mortgages at the end of the fourth quarter. Uninsured loans represent 36% of the portfolio and the loan-to-value ratio on that component is 61%. This means the housing market would have to crash hard for CIBC to take a material hit.

Most market observers expect a gradual decline in house prices in the coming years, rather than a sharp crash.

CIBC pays a quarterly dividend of \$1.15 per share that yields 5.2%. The stock isn't as cheap as it was late last week, but it still trades for less than 10 times earnings.

Investors with a long-term horizon might want to consider adding the name while the yield is above 5%.

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1. Bank Stocks
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