TFSA Investors: 2 Dividend-Growth Stocks on Sale

Description

If you're an investor using Canada's Tax-Free Saving Account (TFSA) to build your retirement income, you've got to be alert all the time to sniff out opportunities in the marketplace.

Last year, the stories were oil price stabilization, uncertainty about the Canadian economy, the U.S. election, and the turmoil related to Brexit.

This year, it's all about growth, rising interest rates, and a steep correction in Canada's housing market.

For income investors, these macro trends offer many interesting opportunities. All you've got to do is to find those stocks that are undervalued and unnecessarily being punished because of their association.

There are two top dividend-growth stocks that I think provide an excellent opportunity to TFSA investors who have some unused limit, or those who're just starting to invest. One is **RioCan Real Estate Investment Trust** (TSX:REI.UN) and the other is **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

RioCan

RioCan shares are down about 10% so far this year on concerns that one of Canada's top REITs will suffer as the Canadian real estate market cools down, and as the shift of consumers to e-commerce reduces demand for its large retail spaces.

There's no doubt that both of these threats are real, and investors should be very careful when picking any REIT for a long-term investment. But if you dig a little deeper, you'll find that RioCan stock is a good example of being guilty by association.

First of all, RioCan clients are some of the biggest retailers who are unlikely to be affected by a slowdown in the local real estate market and an ongoing shift to e-commerce.

Names like **Canadian Tire**, **Loblaw**, **Cineplex**, **Dollarama**, and **Wal-Mart** are incorporating online sales in their brick-and-mortar models, and they'll still need a physical presence to maintain their reach and inventory management, no matter if you buy online or offline.

RioCan's second-quarter results also show that many performance indicators that are critical for its business are showing an improved trend when compared to the same period a year ago. Its committed occupancy rate increased to 96.7% from 95.1%, the retention rate to 93.9% from 91.6%, and funds from operations rose by 10% to $147 million.

With a dividend yield of 5.8%, I think RioCan stock offers a good bargain for your TFSA dollars after its poor performance over the past year.

CIBC

The story of CIBC stock isn't much different than what we have seen in RioCan.

Being one of the largest lenders in Canada, CIBC is more exposed to the housing market. Some investors are avoiding CIBC stock on concerns that the bank won't be able to make more money through its mortgage business as the market slows and the Bank of Canada raises interest rates. Its shares have fallen about 8% in the past six months, underperforming other banking stocks.

I think CIBC has a solid business model which provides a long-term safety and growth to dividend investors. Its valuation metrics suggest that CIBC shares are cheap when compared to its peers. Its price-to-earnings multiple is the lowest among its peers, and its dividend yield of 4.7% is the highest among the "Big Five" banks in Canada.

Also, banks stand to benefit from the Bank of Canada's monetary tightening as higher interest rates improve the banking margins on their savings products.

As the housing market concerns subside after the summer lull, CIBC stock won't be a laggard. Its 13% pullback from the 52-week high offers a good entry point to TFSA investors who are looking for a good banking stock to add to their portfolios.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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