Dividend Investors: Should CIBC (TSX) or Canadian National Railway Company (TSX:CNR) Stock Be on Your Buy List?

Description

Are you searching for top dividend stocks to add to your income or retirement portfolio?

Let's take a look at **CIBC** (TSX:CM)(NYSE:CM) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if one deserves to be on your buy list right now.

CIBC

Investors often overlook CIBC when choosing a bank stock for their portfolios. It is the smallest of the Big Five Canadian banks and arguably comes with more risk than its larger peers due to its high exposure to the Canadian housing market.

That said, the discount on the earnings multiple compared to the other bank stocks might be overdone.

Why?

The company made a US$5 billion acquisition in the United States in 2017 that provided a strong platform in the American market to expand its operations south of the border. The addition of PrivateBancorp, a commercial and private banking firm, diversified the revenue stream and gives CIBC a hedge against potential trouble in Canada.

The U.S. operations reported a 25% increase in net income for fiscal Q1 2019 compared to the same period last year. Overall, CIBC had a weaker Q1 relative to the previous year, with adjusted net income sliding 5%. This isn't unique to CIBC, however, as its peers also had a rough three months.

Management remains optimistic about the revenue and earnings outlook, and the board just raised the quarterly dividend from $1.36 to $1.40 per share. The payout provides a yield of 5%.

The stock has pulled back in recent days, although it still sits above the 2018 low. At roughly 9.6 times trailing earnings, CIBC appears cheap and you get paid well to wait for sentiment to improve.

CN

CN is investing nearly $4 billion this year to boost the size of its locomotive and railcar fleets, as well as upgrade and expand its infrastructure.

Strong demand for the company's services across its various business lines should support ongoing revenue and free cash flow growth. CN had a rocky start to 2018, but finished the year on a positive note. It appears the good times are expected to continue through 2019.

CN just raised its dividend by 18%, slightly above the company's compound annual dividend growth rate over the past two decades. The railway is also buying back a large number of shares.

Long-term investors have done well with this stock and CN should continue to generate solid returns.

Is one more attractive?

CIBC and CN should both be solid picks for a dividend-focused portfolio. CN is probably the safer bet, especially if you simply want to buy the stock and forget about it for 30 years. However, investors with an appetite for some risk might want to go with CIBC, as the stock appears oversold right now.

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