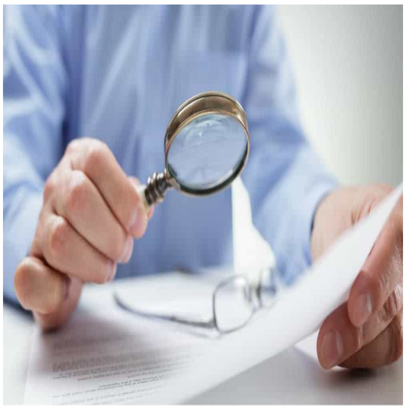

High-Yield TFSA Investors: Is CIBC (TSX:CM) or Enbridge (TSX:ENB) Stock a Buy Right Now?

Description

Retirees are searching for reliable dividend stocks to hold inside their self-directed TFSA portfolios.

The strategy makes sense, as the distributions are tax-free and do not count towards annual income when the government calculates possible OAS clawbacks.

Let's take a look **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see if one deserves to be on your buy list today.

CIBC

CIBC is Canada's fifth-largest bank and has a reputation for making big blunders. The company got caught up in the Enron debacle and later had to write down billions in bad bets on subprime loans in the United States.

In the wake of the Great Recession, CIBC turned its focus on the Canadian housing market, and that strategy has turned out to be very profitable. However, pundits are concerned the bank is too reliant on Canada and a crash in the residential housing market would hit CIBC harder than its peers.

Despite the perceived added risk, CIBC continues to be very profitable, and the dividend should be rock solid. The bank is well capitalized and can ride out a downturn. At the same time, mortgages rates are falling, and that should remove risk from the Canadian housing market.

CIBC trades at just 9.2 times trailing earnings compared to 12 times for the largest players in the sector. A modest discount should be expected, but the gap appears overdone right now. Investors who buy CIBC today can pick up a yield of 5.4%.

Enbridge

Enbridge fell out of favour in recent years amid investor concern over the balance sheet and uncertainty regarding future growth.

Enbridge spent $37 billion in 2017 to buy Spectra Energy in a landmark deal that created a North American energy infrastructure giant. Management then identified $10 billion in non-core assets to monetize and has found buyers for about $8 billion. The proceeds are being used to shore up the balance sheet and fund the current development program.

Enbridge can cover its capital program and dividend through internal cash flow. The company raised the dividend by 10% in 2019 and intends to boost it by an additional 10% in 2020. Beyond that time frame, management is targeting growth in distributable cash flow of 5-7% per year, and the dividend should increase in step.

The stock traded at $65 per share in 2015, so there is good upside potential from the current price of $47.50. Enbridge now provides a dividend yield of 6.2%.

Is one a better bet?

Both stocks appear oversold and offer above-average dividends that should continue to grow. At this point, I would probably split a new investment between CIBC and Enbridge.

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Date
2025/07/06
Date Created
2019/07/08
Author
aswalker