TFSA Investors: 2 Cheap Stocks for a Dividend Portfolio

Description

Dividend investors often pay a premium to buy companies that offer reliable distributions with attractive yield.

Once in a while, however, the market goes sour on an industry or a particular stock, providing investors with an opportunity to scoop up great yield with a shot at some nice upside when the situation improves.

Let's take a look at two stocks that might be interesting picks today for your TFSA.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) currently trades for 8.9 times trailing earnings. That's that kind of multiple we might expect to see in a situation where the economy is in trouble or financial markets are pricing in a nasty downturn.

Anything is possible, but the pullback in the stock appears overdone in the current environment.

CIBC has taken steps to reduce its exposure to the Canadian housing market through strategic acquisitions in the United States. As the U.S. business grows, the diversification should help offset any potential downturn in Canada.

For the moment, the Canadian economy is rolling along in pretty good shape. Unemployment is at its lowest level in decades, and the risks that started to emerge due to rising interest rates are dissipating. The U.S. Federal Reserve just cut interest rates for the first time in a decade, and the Bank of Canada is expected to hold steady for some time. This reduces the threat of a wave of mortgage defaults and the recent drop in fixed-rate mortgage costs should drive a new round of buying in the market.

CIBC generates strong profits and raises the dividend on a regular basis. The current payout providesa yield of 5.4%. If the fiscal Q3 numbers come in better than expected, CIBC could catch a nicetailwind.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) trades at $44 per share today compared to $65 in 2015. The drop came amid a series of pressures, including rising rates, a large acquisition, and ongoing resistance to massive pipeline projects.

Higher interest rates tend to be negative for dividend stocks, as they can make no-risk alternatives, such as GICs, more attractive. In the case of the energy infrastructure companies, higher rates also boost borrowing costs for projects, and that can drive down the amount of cash that is available for distributions. Rates are falling again in the United States and are on hold in Canada. This should benefit Enbridge.

Enbridge made a $37 billion acquisition in 2017 that made some analysts concerned about the balance sheet. Management has worked hard in the past year to restructure the company, and buyers have emerged for about 80% of the $10 billion in non-core assets that are for sale. Enbridge is using the proceeds to reduce debt and support the current development program.

Major pipeline developments face increasing opposition, so growth will have to come from smaller add-on projects and strategic takeovers. Enbridge has ample opportunities across extensive businesses and is big enough to do additional deals.

The market might not be appreciating the progress the management team has made on the turnaround strategy. The dividend continues to grow at a decent rate, and investors who buy the stock today can lock in a 6.7% yield.

The bottom line

A contrarian investing style is needed to buy a stock when the rest of the market is negative on the name, but the returns can be substantial when sentiment shifts. CIBC and Enbridge are strong companies offering above-average yields and should be solid buy-and-hold picks for a dividend-focused TFSA.

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