2 Large-Cap Stocks With a Dividend Yield of Over 5%

Description

Dividend stocks remain an investor favourite. These stocks provide a steady stream of income and provide an opportunity for significant capital appreciation over the long-term. Dividend stocks become incredibly important in a choppy and volatile market showing signs of an approaching bear.

We know that alarm bells sounding a recession are growing louder by the day. Investors are advised to move investments toward stocks with a low beta and robust cash flow metrics in a downturn. Canada has several high-dividend paying companies.

According to one *Morning Star* report, in the June quarter, “Canada achieved a fourth successive quarter of double-digit dividend growth, and continued to outgrow the U.S.” This growth in dividends was led by energy stocks that are generally recession-proof with small fluctuations in cash flow allowing them to grow dividends at a solid rate.

Here we look at two such stocks with strong fundamentals and a dividend yield of over 5%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a domestic giant. A Canada-based energy transportation and distribution company. ENB is valued at $95 billion and is one of the best stocks to own in a volatile market.

The company has paid dividends for 64 years. In December 2018, Enbridge increased dividends per share by 10% to $0.738 per quarter, which translates to annual payments of $2.952 per share, indicating a dividend yield of 6.3%.

In the last 20 years, Enbridge has increased its dividends at an annual rate of 12.1% which is very impressive. It has a targeted dividend payout at below 65% of distributable cash flow, leaving enough cash for reinvesting in growth opportunities and to increase capital expenditure.

In the second quarter of 2019, Enbridge led dividend payments among all Canadian stocks and paid

$1.1 billion to shareholders, as per the *Morning Star* report.

We have seen here that Enbridge transports close to 67% of Canada's crude oil exports to the United States and 20% of the natural gas consumed in the U.S. Its market position and leadership in the energy sector make it recession-proof. Further, the stock has a three-year beta of 1.02.

Enbridge is the third-largest natural gas utility player in North America when we consider its customer base. Analysts have a 12-month average target price of $53.95 for ENB, indicating an upside potential of 15% from the current price.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is another domestic stalwart. This banking stock is valued at $48 billion. The stock is trading at a cheap forward price to earnings multiple of 8.7 times earnings, considering its dividend yield of 5.4% and its long-term earnings growth of 2.5%.

CIBC has underperformed its peers and broader indices in the last year. The stock is down 10.6% over the last 12-months as it has earnings estimates in three of the last four quarters.

While CIBC has primarily focused on the Canadian markets for growth, it's now looking to gain traction in the U.S. markets as well. In July 2019, CIBC agreed to acquire the Milwaukee-based boutique investment bank Clearly Gull. In 2017, it also acquired the United States-based PrivateBank.

CIBC has increased dividend payments at an annual rate of 5% in the last 14 years. While there are some concerns over CIBC's exposure to mortgage loans, Canada's low unemployment rate will mean that the country's Central Bank is unlikely to increase interest rates anytime soon.

Analysts tracking CIBC have a 12-month average target price of $111, which is just 2.8% higher than the current trading price.

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