Dividend Investors: Should You Buy CIBC (TSX:CM) or BCE (TSX:BCE) Stock?

Description

Dividend investors are searching for top stocks to put in their TFSA and RRSP portfolios.

Let's take a look at two TSX Index giants with high-yield dividends that might be interesting picks right now.

CIBC

Investors often skip over **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) when choosing a financial stock for their portfolios. The bank is the fifth-largest in the country and analysts often cite CIBC as being a higher-risk investment due to its reliance on the Canadian housing market.

CIBC certainly has higher relative exposure to this segment than some of its peers and a meltdown in home prices would be negative for the bank. That said, a crash is unlikely in the current environment of low interest rates and falling bond yields. The Canadian economy remains in decent shape and national employment numbers are strong.

CIBC is making changes to the revenue mix to balance out its income stream. The company invested more than US$5 billion in the past couple of years to buy banking assets in the United States. The American operations contributed 17% of adjusted profits in fiscal 2019 and that could grow with additional purchases.

The stock is up about 10% since the middle of August, but still trades for less than 10 times trailing 12-month earnings. This is a multiple that would be expected in a negative financial environment and is well below the value the market is giving the other large Canadian banks.

CIBC is very profitable, and its strong capital position should enable it to ride out the next downturn. The current dividend provides a yield of 5.2%.

BCE

BCE (TSX:BCE)(NYSE:BCE) reported solid results for 2019 and gave steady guidance for the current year.

The communications giant continues to invest in network upgrades to meet rising wireline demand for high-speed broadband. Its fibre-to-the-premises program runs fibre optic connections directly to business and residential clients, giving BCE an additional competitive advantage while positioning the firm for higher revenue opportunities.

As an example, smart-home technology is gaining traction as Canadians embrace the ability to monitor and secure their properties remotely. This is a growing opportunity for BCE to leverage its existing relationship with subscribers.

On the mobile side, the arrival of 5G smart phones should expand revenue opportunities for BCE and its peers. Video streaming and gaming are just two of the areas where new bundling models could be explored.

BCE raised its dividend by 5% for 2020, supported by a 7% increase in 2019 free cash flow. Revenue and profits are expected to grow modestly in 2020 and free cash flow guidance is targeting a 3%–7% increase over last year.

The current dividend provides a yield of 5.1%.

Risk?

BCE's stock is trading at $65 per share, which is near its 12-month high. This compares to $51 in October 2018.

The steep rally is largely attributed to declining interest rates and falling bond yields. Low rates make dividend stocks more appealing to income investors who can't get the return they need from GICs. In addition, debt becomes cheaper for BCE, potentially increasing the amount of cash that is available for distributions.

A return to rate hikes in the United States and Canada would put new pressure on the share price. For the near term, however, that shouldn't be a concern.

The Canadian government's pledge to force BCE and its peers to reduce mobile rates could also have a negative impact. Lower margins would hit profits and that could result in reduced spending on network expansion in the next few years.

Is one more attractive?

CIBC and BCE both pay attractive dividends and should be solid picks for an income-focused portfolio.

If you only buy one, I would probably make CIBC the first choice today. The stock appearsundervalued and probably has better upside potential in the medium term.

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