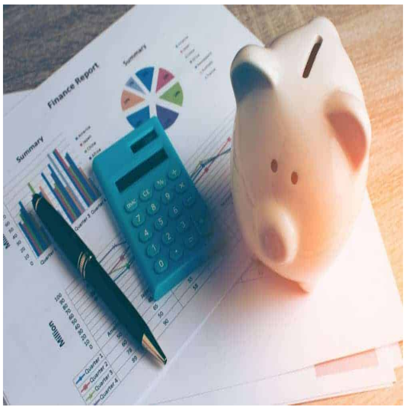

Market Crash: Should You Buy CIBC (TSX:CM) Stock for the 6.8% Yield?

Description

The stock market correction is sending the share prices of top Canadian dividend stocks down to the point where contrarian TFSA investors are getting very excited.

Initial shock

The TSX Index closed at 14,270 on March 11, compared to nearly 18,000 less than a month ago. The initial sell-off came as a result of the coronavirus outbreak in China. International investors worried that the economic slowdown in the country would send a domino effect across the world.

China is a major purchaser of global raw materials and finished goods. The country is also a critical manufacturing hub with factories producing product for consumption around the planet.

In the past two weeks, the concern has widened. South Korea, Iran, and Italy have major coronavirus outbreaks that have contributed to a larger global spread, as people travelled to and from these countries.

In total, more than 100 countries have now reported cases. The WHO just declared the outbreak a global pandemic. This has added to the market panic and caused the 688 point plunge on the TSX on March 11.

Oil rout

To make matters worse, the global oil market took a nosedive after Saudi Arabia and Russia failed to reach an agreement on supply cuts to stem a declining oil price. The price of WTI oil was already down from US$63 in January to US$43. The news that Saudi Arabia is ramping up output and dropping its price sent oil tumbling. WTI oil currently trades at US$33 per barrel.

Opportunity

The broad-based sell-off is hitting stocks across all sectors, and some of the damage appears overdone.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) trades at $86 per share. That's down from $110 a month ago and $115 in November. The current price puts the price-to-earnings multiple at just 7.6, which is the kind of valuation you might expect during a major financial crisis.

Fear is certainly high right now, and an economic impact from the coronavirus is anticipated. However, as Warren Buffett recently said, this is not 2008.

CIBC reported solid fiscal Q1 2020 results. Adjusted net income came in at $1.48 billion, representing a 9% increase over the same period last year. The adjusted return on equity was a healthy 16.1%, and the company has a strong capital position with a CET1 ratio of 11.3%.

The board just raised the quarterly dividend from $1.44 to $1.46 per share. That's good for a 6.8% yield.

The recent interest rate cuts in Canada and the United States will put pressure on net interest margins. However, the lower borrowing costs will help struggling companies and consumers pay their variable-rate debt and entice stronger companies to access cheap cash for new investments.

At the same time, falling bond yields are driving down rates on fixed-rate mortgages. This helps existing homeowners renew at better rates and gives more people a chance to get into the housing market.

CIBC has a large Canadian residential mortgage portfolio. Reduced borrowing costs will boost loan growth and reduce defaults in the event the economy rolls over.

The board held the dividend steady during the Great Recession. CIBC might see some pain in its energy portfolio if oil prices remain at current levels, but it isn't facing the US$10 billion in exposure to subprime loans that triggered massive writedowns in 2008.

Should you buy CIBC?

Additional downside could be on the way. However, CIBC appears very cheap right now, and buy-and-hold investors get paid a great yield to wait for the market to recover.

If you have some cash sitting on the sidelines, CIBC deserves to be on your radar today for a TFSA income fund.

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