Oversold Dividend Stocks: 2 High-Yield Picks for TFSA Income Investors

Description

The market crash is giving Canadian income investors an opportunity to buy top dividend stocks for their Tax-Free Savings Account (TFSA) at cheap prices.

TFSA advantage

Retirees are always searching for ways to get better returns on their savings. The arrival of the TFSA in 2019 provided a great vehicle for pensioners to generate income on investments without worrying about being bumped into a higher tax bracket.

In addition, the earnings are not counted toward the net world income calculation used to by the CRA to determine OAS clawbacks.

The cumulative TFSA contribution limit is now as high as $69,500 per person, which gives retirees a chance to build a decent portfolio of quality dividend stocks.

The plunge in stock prices in recent weeks means that many top Canadian dividend stocks offer very attractive yields. Let's take a look at two stocks that appear oversold right now and might be interesting picks for a TFSA income fund.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) traded as high as $124 per share in 2018. Last month it was at $110. At the time of writing, investors can buy the shares of Canada's fifth largest bank for a mere $76.

The stock now trades at just 6.8 times trailing 12-month earnings, which is very cheap given the company's level of profitability and strong capital position.

Risks?

A severe economic downturn would hit CIBC and its peers. Pundits expect corporate borrowing to slow down significantly in the coming months, and consumer defaults could rise in the event unemployment levels spike.

CIBC has a large mortgage portfolio relative to its size. A steep plunge in house prices caused by a flood of listings would likely impact CIBC more than the larger Canadian banks.

Despite the near-term headwinds, the stock appears very cheap. The Canadian government is buying up to $50 billion in mortgages to help provide the banks with added liquidity to keep lending.

Falling bond yields are resulting in lower fixed rate mortgage costs. As a result, more new buyers will be able to enter the market, and existing homeowners can renew at lower rates.

CIBC held its dividend steady through the Great Recession, so the payout should be safe. Investors who buy today can pick up a yield of 7.6%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is targeting growth in distributable cash flow of 5-7% per year over the medium term. Dividend hikes should be in line with that outlook.

The stock took a huge hit in recent weeks, as investors dumped everything connected to the energy industry. West Texas Intermediate oil prices plunged from US$63 per barrel in January to a recent low near US$20. Enbridge transports oil and gas, but it isn't a producer. The drop in the commodity price has little direct impact on revenue.

In addition, most major producers will keep production going even at current price levels, as it costs too much to shut the facilities down and then restart again when prices rise.

The stock fell from $55 in February to below $34 in the past few days. Bargain hunters are entering the market and Enbridge is currently trading at $39. Investors who buy now can still pick up a yield of 8.25%.

The bottom line

CIBC and Enbridge pay attractive dividends that should be safe. Income investors can take advantage of the market crash to add the stocks to their TFSA portfolios.

Ongoing volatility should be expected, but you get paid well to wait for the market to recover.

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Date
2025/09/08
Date Created
2020/03/20
Author
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