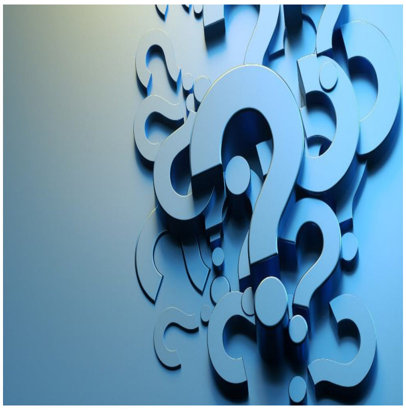

Attention Market Crash Investors: Should You Buy CIBC (TSX:CM) Stock for the 7% Dividend Yield?

Description

The 2020 market crash is giving contrarian investors an opportunity to buy top Canadian dividend stocks at cheap prices. In fact, the discounts haven't been this good since the Great Recession.

The **TSX Index** plunged more than 35% in the initial weeks of the latest crash. Bargain hunters are picking up oversold stocks and the market is clawing its way back. At the time of writing, the TSX Index sits at 13,800 compared to nearly 18,000 in February.

Reliable dividend stocks still trade at cheap levels, and yields remain very high at some companies.

Nonetheless, caution is warranted.

The coronavirus outbreak is hitting the global economy hard, which makes it difficult to know when the market will reach a bottom. Job losses are mounting and the lockdown that is in effect in many countries could tip the world into a brief, albeit deep, recession.

Should you buy CIBC stock?

The Canadian banks plunged significantly amid concerns that the large jump in unemployment would trigger a wave of defaults on home loans and credit card charges. More than 1.7 million Canadians applied for the government's Canada Emergency Response Benefit (CERB) in the first two days. A recent *MNP Consumer Debt Index* report suggests nearly 50% of people surveyed are at risk of not being able to pay their bills.

Businesses also need help to get through the downturn. While government aid is on the way, pundits fear delays in getting cash to companies could cause widespread permanent closures.

Given the uncertain scenario, investors might be inclined to avoid the Canadian banks.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) currently trades at $83 per share compared to its 12-month high near $116. The stock dipped as low as $67.50 in March.

Investors who buy CIBC at the time of writing can pick up a 7% dividend yield. Is it safe?

CIBC had roughly $220 billion in Canadian residential mortgage exposure at the end of January, 2020. This is large relative to the company's size when compared to the other members of the Big Five.

The Canadian government announced plans to buy up to $150 billion in mortgages from the banks through CMHC to ensure they have the liquidity needed to keep lending, which will help ease the pressure on the sector.

CIBC finished fiscal Q1 2020 with a CET1 ratio of 11.3%, which means the company should have adequate capital to ride out the downturn.

The board raised the quarterly dividend from $1.44 to $1.46 per share for fiscal Q2 2020. Another hike is not likely this year, or in 2021. CEO Victor Dodig recently said the bank isn't considering a dividend cut.

The bank maintained the dividend during the Great Recession and analysts have pointed out that CIBC is in better shape now than it was heading into the last crisis.

At this point, the dividend should be safe.

Risks

Lockdowns could last longer than the markets currently expect, so there is a risk we could see a drop back toward the March 2020 low. Another concern would be a sharp increase in property listings and a subsequent plunge in home prices.

If a sell-off occurs, CIBC would likely get hit harder than its peers.

Upside

Income investors with a buy-and-hold strategy might want to start nibbling on the stock. Additional volatility could be on the way, but you get paid well to ride it out.

History suggests a strong recovery will follow the crash and CIBC could easily be back to $100 per share in the next 12 months.

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